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MANAGEMENT SUCCESSION IN SMALL AND GROWING ENTERPRISES

MANAGEMENT SUCCESSION IN SMALL AND GROWING ENTERPRISES

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Foreword

In a competitive economy, the founding and growth of new enterprises is a powerful stimulant. Individual initiative is thereby encouraged. New human resources are uncovered. The dangers of lethargy among older concerns are lessened. And the gaps, which are left by concerns that do drop out of the struggle, are filled. In the growth of young enterprises the managerial factor is of predominant influence. For the enterprise to continue to grow, furthermore, the head of the concern also must grow; and for its lasting prosperity, provision must be made, sooner or later, for succession in management. Adequate provision for management succession enables an enterprise to grow and mature beyond the life span of the founder. It is with that problem of management succession that Professor Christensen's report deals.

The costs of this research were defrayed by an allocation from the funds contributed by The Associates of the Harvard Business School and from the B. F. Goodrich Company Endowment for Research in Memory of David M. Goodrich.

Melvin T. Copeland
Director of Research

Soldiers Field
Boston 63, Massachusetts
June 1953

Preface

Small business is one aspect of our American business scene which has long received a great deal of attention from the "man on the street," as well as from his elected political officials. Recently an increasing amount of research attention has been directed toward small business problems, and the amount of available information on this field has expanded considerably. Much of this material seems to be based on the assumption that small business is really a miniature counterpart of a larger business organization and that its problems, in lesser degree, are those of its larger competitors. In the author's judgment, such an assumption has doubtful validity. Small business does have its own special management and operating problems which follow from its size limitations. In addition, its small size makes more difficult the solution of problems which are common to both large and small enterprises.

Some very helpful research findings in the small business area have been reported in Division of Research studies by Professors Butters and Lintner in their study, *Effect of Federal Taxes on Growing Enterprises*, by Professor Mace in his report, *The Board of Directors in Small Corporations*, and by Mr. Lawler in his monograph, *Records for the Control of Growing Manufacturing Enterprises*.

This study, following in the path of these prior investigations, seeks to explore one commonplace problem confronting small business: how to maintain continuity of top management. It could not have been conducted without the generosity of many people. The willingness of small businessmen, directors of small companies, bankers and trust officers to share their experiences with me provided the case material on which this study is based. It is impossible to give individual and public recognition for their services, but they are nevertheless appreciated. In order to protect confidences, the

author disguised company and individual names, as well as types of products involved.

I would also like to express my appreciation to several of my associates, members of the Faculty of the Harvard Business School. Professors Geo. Albert Smith, Jr., Myles L. Mace, and Dan Throop Smith gave me their time and judgment on many occasions during the course of this study. Mr. Andrew R. Towl, Assistant Director of Research, was a source of constant encouragement and counsel.

In a multiplicity of ways my wife worked with me in carrying out this project. It could not have been written without her support. I would also like to record my appreciation to Miss Marilyn Buell, whose editorial and secretarial help was of great assistance. Mrs. Robert H. Sproat's and Miss Ruth Norton's contributions, in terms of both constructive criticism and careful editing, were of major consideration.

I leave until last my acknowledgment for the help which Dr. Melvin T. Copeland gave me throughout the course of this research project. Dr. Copeland is completing 40 years of service with the Harvard Business School, of which the past 11 years were spent as Director of the Division of Research. His sincere interest and wise counsel have been the primary elements responsible for sparking the conduct of this research and in evaluating its results. The opportunity to work with Dr. Copeland has been tremendously stimulating.

The assistance given by these individuals has been substantial, but the responsibility for the conduct of the study, and for its conclusions, rests solely with the author.

C. Roland Christensen

Soldiers Field
Boston, Massachusetts
June 1953

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MANAGEMENT SUCCESSION IN SMALL AND GROWING ENTERPRISES

CHAPTER I

Introduction

This is a report about the problem of securing continuity of management in small and growing enterprises and the ways in which companies have helped to insure their survival by providing successfully for succession of management. Companies, like people, pass through various critical stages in the course of their development from infancy to maturity. One such critical stage occurs when the top executive dies or retires and a new president takes over company operations. A company's success — or lack of it — in preparing for and working through this transition period may determine its immediate survival or failure. If the company survives, its long-run competitive chances for profits and growth are profoundly affected.

Management Succession

Providing for management succession is a problem confronting any organization. Although the attention of this study is directed toward small manufacturing concerns, some large manufacturers were interviewed, as well as officers in retail stores and banks. The difficulties of preparing for succession are common to companies of every type and size, although the magnitude of the problem varies, as does the kind of action which can be taken. Mr. William A. Lyon, banking superintendent of the State of New York, indicated the importance of the problem in the banking profession. ". . . [he] declared that increasingly the smaller banks were permitting their separate identities to disappear 'through failure to come up with new hands to which the sceptre of management can pass.' . . . For some years now, top officers or the biggest stockholders of some small and medium-size banks have stopped by the department's offices to say

they were thinking of merger because there was no one in sight to take the place of the aging or recently retired or deceased chief operating official!"[1]

Preparation for replacing the top executive is an important and difficult task even in the largest firm, but size gives advantages which smaller companies do not have in dealing with the problem. Typically, in the large concerns the selection of a manager need not be unduly hurried, for the organization is large enough and strong enough to supply at least temporary management to run the business for a considerable length of time. Choice need not be limited, for the large concern has many subordinate executives from whom a manager may be selected; if none of these is suitable, there is usually money enough to attract a leader from outside. The large company usually does not have to face a management crisis and a financial-ownership crisis at the same time. Finally, the large business can get advice in choosing its leader, either from its board of directors or from outside counsel.

In contrast to this, succession is complicated for the small concern because most of its management resources are centered in one man; its operating organization is typically thin and heavily dependent on the general manager for day-to-day guidance, and there is usually no effective source of outside help.

Though popular attention has recently been given to small business problems, it has mainly been directed toward such areas as taxation, share of defense production and controlled materials, relief from governmental restrictions, and protection from "Big Business." The difficulty of providing for continuity of management in the small company is a problem which has received scant recognition. Yet bank and trust officers interviewed in the course of this study estimated that from 70% to 90% of the small companies with which they were familiar had failed to look ahead and prepare for the transition from current to next-generation management. The results of this study substantiate these estimates.

[1] *The New York Times*, May 28, 1952.

The statement has been made that management is the number one problem of small business, but what this comment means is seldom very precisely defined. What does constitute "management" in a small firm? How does the small businessman work as a "manager"? What makes him successful or unsuccessful? Why do some small concerns grow and expand, while others remain permanently small? To help small business, much research could be done on all these questions. This volume, however, confines itself to one commonplace and recurring problem which confronts every small business manager: How can I help insure my company's survival by making certain that replacement management will be available when I go out of the picture?

To set this problem in perspective, the author will begin by spelling out some facts about small business and the part it plays in our economy. The term "small business" must also be defined, and a few words spoken about the "point of view" of this study before going on to the topic of succession and what may be done about it.

Small Business Isn't Small — It's Big and Important

Small and growing enterprises occupy an important role in our industrial economy. From the viewpoint of aggregate size, small business is pretty big business. In terms of numbers of manufacturing companies, out of a total of 247,300 manufacturers in this country in 1949-1950, 242,300 employed 500 or fewer people. That group of companies employed almost 8 million persons and produced approximately $45 billion in value added by manufacture.[2] Not only in numbers, but also in type of work performed, small business makes its contribution. One major manufacturer reported that on his critical defense production work he employed the services of over 11,000 small business subcontractors. In certain fields, such as the apparel industries, the small concern often has economic advantages not possessed by larger organizations.

Small businesses also help society in ways which statistics

[2]U. S. Bureau of the Census, *Annual Survey of Manufacturers: 1949 and 1950* (Washington, Government Printing Office, 1952), pp. 116-117.

cannot reveal. One major contribution which they make is to provide a continuous "needling" action to their larger and frequently older competitors. As the manager of a large Middle Atlantic company described it: "Those guys are always giving me a competitive 'hot foot.' They are in and out before we can start working up templates." To choose another illustration, there is the case of a small midwestern manufacturer who was able, by specializing, to cut the price from 78 cents to 58 cents on a metal part used in electrical appliances. The previous supplier, a large Detroit fabricator, lost the contract and was forced to revamp one of its major operations to get back into the market. This example typifies a daily process of competitive action. An ability to move fast from the original opportunity to a finished product has meant that countless small manufacturers could meet business needs and prosper and, in so doing, help to keep their larger competitors on their toes.

Small business offers men with ideas a chance to try them out and see how they work. If the firms surveyed in this study were typical, then small businessmen seem willing to experiment with a new product, process, or way of doing things. Perhaps that is because many of these managers are always willing to take a chance, or because the company has to do new things or collapse. But whether the reason is necessity or temperament, men with ideas are always starting new firms or getting their ideas worked out in established small companies. Small business could be called an economic incubator, always hatching new products and processes. Most of the starts fail, but a sufficient number succeed so that there is always encouragement for the trying-out process to continue. Guts, faith in an idea, and a few dollars have been the foundation for many a now large and prosperous firm. Small businesses have no monopoly on new ideas, but being so numerous, they collectively provide a major source of new business opportunity. Furthermore, the small business operates as a court of last appeal. In his many interviews with businessmen, the author heard of numerous products that had been turned down when offered to big companies, only to become successful when taken up by smaller concerns. It is difficult to

imagine a complacent economy in a country where there are thousands of small businessmen with the courage and will to try out new ideas.

Small and growing enterprises offer an additional, less talked-about, but very valuable social asset. Only in small concerns can certain types of businessmen use their abilities to best advantage. These are the men who do not like to work in a large organization where their work is separate from actual operations. Many of the small firms covered for this study were founded or run by people of this kind. These men are "enterprisers," whose primary skill lies in "doing" rather than in "delegating." In small companies these managers can work with a smaller executive group and participate personally in the job of producing and selling. In this way small business offers the "nonorganizational manager" a chance to work and make a contribution.

Many small businessmen are also recruited from the ranks of those who are deeply opposed to working for anybody but themselves. Such men may start several small ventures before finally achieving success, but failure does not deter them from trying again. Small business in this way can utilize initiative and persistence which might otherwise go to waste. At the same time, small business operates as a sort of industrial safety valve, enabling these dominant men with a strong drive toward independence to realize their socially useful ambitions.

Throughout this report the words "small" and "growing" are frequently placed together to emphasize the growth role of small business. It is the possibility of growth which makes small business so vitally important to our economy. It is from the ferment of countless small businesses inventing new processes and ways of operating, pushing new products, and creating industries that we as a nation benefit. The pioneering efforts of Dr. DuMont in television, of Mr. Fuller in house-to-house selling, and of Howard Johnson in the highway chain restaurant business are still fresh in the memories of all. Such examples highlight the disturbing impact of brash new firms founded by men with ideas and courage. They show that the size of a company is far less important than its possibilities for future growth.

What Is "Small"?

What constitutes "small business"? The term means all things to all people. Small business is sometimes defined as including any company with less than 500 employees, or with less than $3 million in sales. Sometimes asset value or the geographical area of a company's operations are used as the measure of size. Such figure standards have the advantage of being precise, but they are arbitrary. They ignore the fact that a firm of a given size may be among the largest in one industry — apparel, for example — and among the smallest in another, such as steel. Recently the Department of Commerce has given official recognition to this fact and has tried to make its figure standards of size more realistic by varying them from industry to industry.[3]

In this report we will try to differentiate small from large concerns primarily on the basis of differences in management. The organization of management, its functions, and its relation to company ownership seem to us to be the most significant areas in which small companies differ from big ones. However, we have also generally used the standard figure tests for smallness.

One of the essential distinguishing aspects of the small firm is the small number of people that it has in managerial positions. In many cases there is but one real manager in the company. In other cases there is a limited management group: the president-general manager, assistants in sales and production, and the office manager, who also serves as accountant and personnel man. Typically these men have been with the company for many years, having come to it directly from grammar school, high school, or college. The "errand-boy-to-company-officer" program of management development is still very much the order of the day in small business.

A second characteristic of management in small firms is that the chief executive makes most of the major decisions, as well as many of the minor ones. He is often the dominant man in

[3]U. S. Department of Commerce, Business Information Service, *Size Classification of Manufacturers,* (Washington, November 1951).

the company and is quite willing to demonstrate by speech and action that he is the leader. The term "one-man show," while not completely accurate, frequently applies. Although there may be several men in titular management positions, they are not given the opportunity to do more than carry out routine operations.

The relationship between the manager and his subordinates is direct and personal in small corporations. The factory mechanic, the shipping clerk, and the salesman know who the president is. They usually see him each day, and often he is in the factory or on the road working with them to get the product manufactured or sold. He is a "working president" in very much the same sense that we speak of a "working foreman."

In the small corporation ownership and management are closely related. The manager in many cases owns a substantial portion of the company and typically owns at least some stock. Other officers of these firms usually share in ownership, too.

Often a family dominates the company, giving it its name, its traditions, supplying it with managers, and owning or having owned all or most of the stock.

Lastly, the small corporation in most cases maintains an air of secrecy with regard to its operations. Limited financial data, if any, are released, and the company operates on the theory that what it is doing is no one's business but its own. This air of secrecy carries over to the employees, and in some cases nonowner management is not informed of the company's financial standing or progress.

A small firm, then, is one that is managed in certain characteristic ways. Size may also be defined in terms of quantitative factors, such as the number of employees. But for the purposes of the present study, which aims to throw light on the problems of managerial succession, the managerial criteria of size seem more useful than any of the others. The use of these criteria serves to highlight some of the factors in a small business which underlie many of its problems and which make its survival difficult to insure.

A Point of View and Conclusions

The experiences of some small companies which have worked with the problem of management succession provide the basis of this report. From studying these experiences, we have formed a point of view about the nature of the problem of management succession, its importance, and what can and cannot be done to help small business in meeting it. In outlining this viewpoint and some of the conclusions of our study in the next few pages, we can give the reader some advance ideas of what topics he can expect to find covered and what points he might find particularly useful to him.

The problem of effecting a smooth transition from one manager to another is an important, though infrequent, difficulty confronting small business. Sooner or later most small businesses must face up to the fact that the incumbent general manager will either retire or die and a replacement must be found. The typical small business is so heavily dependent upon the skills of its top manager that his loss often creates a serious situation.

When a change of management does occur, its impact is conditioned by the general state of business, as well as by the strength of the individual company involved, in terms of finances, product, facilities, and organization. The generally profitable times of the last decade have eased the problem of management succession for some firms that might not otherwise have completed the transition successfully.

Despite the importance of the problem, many small businessmen do little looking ahead, and few make preparations for this inevitable event. Successor management is, therefore, often chosen under conditions that make it difficult to secure an effective replacement executive. The results of such inaction range from liquidation or a forced sale to a period of unsatisfactory operations when unseasoned management is learning to run the business or to the hurried selection of a manager who is able to keep the company afloat only under the most favorable business conditions.

But more is affected than the fate of the particular company involved. From the public point of view, failure to prepare

for management succession is one of the factors leading to the instability of small business, with resultant costs to investors, employees, and the community at large. The cumulative effect of failures by small business managers to insure continuity of top management for their firms, moreover, may well be a factor of importance to our economy in terms of indicators such as employment, tax payments, and over-all contribution to the gross national product. In addition, from the viewpoint of maintaining a business society made dynamic by a task force of aggressive small concerns, failure to provide for competent replacement management for these firms affects the growth potential of our entire economy. If "run-of-the-mill" management takes over, a company's growth momentum is dissipated. In the extreme cases of liquidation, the contribution of a company is completely lost, and other companies must step in and rebuild. If a business fatality occurs — for example, in the case of a small enterprise such as a "Mom and Pop" grocery store — there is little impact even on the local scene. But when a small firm employing several hundred suffers from a failure to provide for succession, the adverse results are of importance not only to the individual company involved but also to the local governmental unit and to the business community at large.

In some small companies there appears to be very little hope of interesting management in the problem of succession. Sometimes a manager refuses to consider the impact of his own removal from the scene; sometimes he is unwilling to take constructive action on the problem because this would mean some modification of his customary way of working. In other small companies, however, management has been willing to face up to the question of succession and see what could be done. In such cases the problems of management transition have been eased, and the concern has been able to negotiate the succession hurdle.

Those small businesses which have successfully provided for continuity of management have certain common attributes. One is a willingness to look ahead and make advance preparations for this period of crisis. Small businessmen who are willing to think about the problem, to discuss various alterna-

tive ways in which it can be taken care of, and to make some advance arrangements for handling it, are in a far better position to deal with succession than small firms which ignore the question.

Another characteristic of firms which have successfully dealt with succession is the presence of counsel, outside of the immediate management group, which can arouse interest in the problem and make sure that it receives continuing attention. Such outside counsel may come from a number of sources. Some small businessmen rely upon the trust officers of banks, others upon lawyers, still others upon business acquaintances. In some cases there are more formalized arrangements, such as active boards of directors. It is difficult for a small businessman to be a "self-starter" with regard to succession. Attention to the problem raises for him all sorts of unpleasant questions, revolving around the hard fact that some day he must step down from his present position. Some outside help provides necessary encouragement for him to take the "bit in his teeth" and do something.

Another common element found among companies which have dealt successfully with succession is a willingness on the part of the small business manager to change to a degree his pattern of day-to-day working relationships with other members of his organization. Some of the operating patterns used by many small businessmen, while effective at producing profits, make for trouble when it comes to preparing for successor management. For example, many small businessmen run a "one-man show"; they make important decisions unassisted, do much of the day-to-day work themselves. They are not skilled in building supporting organizations and are not too successful in learning the knack of working through others. Many dislike the idea of an outsider's giving them any advice. Proud of their achievements and confident of the future, these men are reluctant to think about the day when their companies will need new management. These qualities of optimism and self-confidence may be invaluable in starting a business and in keeping it going, but they are not conducive to making advance preparations for the future.

On the other hand, where a small businessman is willing

and able to consult with one or more of his subordinates, discuss his aims, seek advice, and work through others, then his company becomes less vulnerable to his sudden withdrawal. The men left behind know enough about the business and its problems to run it, at least for a time, without his help.

A small businessman can make an important contribution to his concern's chances of insuring continuity of management if he is willing to develop a strong over-all management team. This requires time, attention, and as noted, some change in his way of operating his concern. When there are a number of possible candidates for the top manager's job rather than one "crown prince," a small company's chances of surviving succession are measurably increased.

Another contribution which a manager can make before turning over the reins to his successor is to limit, in so far as possible, the problems incident to a change in top leadership. When a manager cleans up "administrative dirty work," makes certain that he leaves a "fillable job," and works with competent counsel on arrangements for succession of ownership, the transition from old to new management is less difficult.

Some small companies have taken steps to help their older management step down from office, and such steps have contributed to a successful transition of top leadership. Where some preparations for retirement are made, the difficult job of moving out the "old man" is accomplished with less strain on the part of both the individual and the company.

These approaches, among others detailed in the succeeding chapters, can be of assistance to small company executives. From our occasional interviews with top managers of medium-size and large manufacturing companies, as well as with officers of financial and service organizations, we would further conclude that the majority of these suggestions could also prove practicable in those situations. But whether a company is large or small, these approaches to the succession problem must be applied with balance and with an appreciation for the specific situation involved. Outside counsel generally, and active boards of directors specifically, can give prime service to a company facing an era of management transition. Such

boards, however, are not a universal panacea. In some situations, where the leadership is unwilling to face up to the necessity of providing for replacement management, the board's usefulness is drastically limited.

A significant factor affecting succession is growth. Small concerns which are growing ones get a powerful boost to their efforts to work out succession. Growth is a strong stimulant to the development of managerial skills, providing opportunities for men to try new things and to learn from increased responsibilities and challenges. Furthermore, growth can increase the size of the company's management organization, broadening the field from which the successor will be selected. Growth puts pressure on the small business operator to build an organization to carry the increased load.

The problem of succession creates an opportunity for those outside the company who are associated with or interested in the small business community. One such opportunity is derived from the need for increased use of active small company boards. Small businessmen should be encouraged to develop and use boards of directors, and capable business and professional men must be encouraged to serve on them.

There is an opportunity for the financial community — specifically the professional trust officer — to increase its service to small company management. There is a natural bridge of interest for the trust officer, with his work in estate planning, between his professional duties and the need of small business for counsel on succession. When a small businessman utilizes the services of experienced trust counsel in working out estate arrangements, the chances are excellent that something will be done about management succession in his firm. The trust officer is interested in conserving the assets of the small businessman's estate and wants to make sure that the major part of it — the company — will continue to be a going and profitable business, able to survive the loss of its leader. The trust officer keeps a constant check on the state of company thinking and planning about management succession. Much effective work has already been done by trust men in encouraging small businessmen to plan for succession; more remains to be done. If trust officers are to con-

tinue this work with increased effectiveness, then managers of financial institutions perhaps need to re-evaluate the role of their trust group and its relationship to other departments of the organization, the caliber of executives assigned to such an activity, as well as the terms and schedules by which this department receives fees for trust service from small business clients.

Attention to the problem of succession also affords an opportunity to develop better trained management for small concerns. Small firms generally have lagged behind large ones in the matter of developing their human resources. While elaborate training programs would be inappropriate and even impossible in a small business, some advantages can be gained if only the small businessman can be urged to give attention to this area.

At this point attention should be called to the reluctance shown by many small businessmen toward thinking about the problem of succession. By their words and actions they seem to imply that the subject is a morbid one, no more suitable for discussion than an unpleasant physical affliction. The unwillingness of many small businessmen to sign a will is another symptom of the same point of view.

This attitude, in our opinion, is unsound. It seems to us no more morbid to discuss management succession and to plan ahead for it than to discuss life insurance and acquire such protection. Making arrangements for succession, like buying life insurance, is a constructive action; it is a way of meeting the obligations that the individual owes to others. Making preparations for management transition is one way in which the businessman can protect his family and heirs, and along with them, his employees, his customers, and his suppliers. From a social point of view, the business community as a whole benefits from actions taken to keep the small firm alive during and after the transition crisis. From an individual point of view, such action helps to make more certain the continuance of the business as a symbol of the businessman's achievement. The business does not disappear with his retirement but continues as evidence of his contribution to society.

Management succession has been a perennial problem for small business. It will not disappear, but small business managers may find it easier to meet if they consciously direct their attention to it and if they consider what they can learn from the experiences of firms which have successfully overcome the difficulties of such a transitional period. Efforts to insure continuity of management for small firms hold promise not only for the individual firm but also for greater stability in an important segment of our economy.

CHAPTER II

The Problem of Management Succession

THE CORPORATION charter, granted by the state, gives a company the legal opportunity for perpetuity of life. This grant offers the corporation a chance for continued existence beyond the life of a single manager to the benefit of employees, owners, customers, and the community.

Legal continuity of existence is a fiction, however, unless provision is made for new managers to step in when old ones step out. A corporation's survival is not insured by its legal charter; that opportunity must be realized through management action. Yet many small businessmen give little or no attention to the problem of providing for successor management. Concerned with the immediate pressures of today's problems, they tend to devote a minimum of time and consideration to the future management requirements of their companies. The small businessman's unstated assumption seems to be that the problem of finding a top management replacement can be handled on the spot, without any thinking ahead or planning for this event.

There is a need for small businessmen's attention to the problem of succession. It is an infrequent but inevitable hurdle which almost every concern must encounter sooner or later. Any effort which will help small businesses in dealing with management succession should contribute to the stability and economic health of an important segment of our economy.

A Typical Situation

A typical situation involves the Roberts Metal Co., Inc.,[1] founded in 1931 by John Roberts and his wife. Originally the company had been a jobber of specialty metals manufactured

[1]The names of companies and individuals cited for illustration in this report have been disguised in order to avoid revealing the source of the information.

by other firms. Gradually it began to acquire equipment to bend, shape, and form metal, and by the late 1930's was a producer of metal products for industrial uses. The company's business continued to expand during the 1940's and early 1950's, and sales of $1.5 million were reached in 1951. Mr. Roberts' skill in selling, his ability to sense new markets for company skills, and his contacts with larger metal working companies in the New York area provided the basis for much of the company's success. Mr. Roberts, in late 1952, purchased $125,000 worth of new equipment to provide for badly needed expansion. To finance it, he had to lend his company about $70,000, the bulk of his family's noncompany assets.

In September 1952 Mr. Roberts was 66 years old. He was justifiably proud of his company's record and said, sometimes to the annoyance of his wife, that he believed the business was his main interest in life. His two sons were by ability and interest not fitted for the metals business and were not employed by the company. Mr. Roberts had no retirement plans, nor had he made a will or arranged for the disposition of his company. "The day I sign my will is the day I die," he declared.

Other members of the management group included a production superintendent, described by Mr. Roberts as an excellent practical shop man, a chief engineer, and an office manager-accountant, who handled correspondence and all record keeping. All were about 50 years of age and had been employed by Mr. Roberts since the early 1930's. Each had worked only in his own operating area and had no experience in other operations of the company or in topside management. Neither by background nor ambition were they qualified to take over the general managership. The company's board of directors was composed of Mr. Roberts, his wife, and the office manager. It met only to fulfill the legal requirements of the state.

No provision had been made for a successor to Mr. Roberts. His abilities to start and build a business had not been matched by an ability to develop a management organization capable of taking over in the event of his death or serious illness. The results will be known only as the future unfolds, but the competitive nature of the industry and the lack of any manage-

ment reserves within the company will make the transition period very difficult. Moreover, the survival of the company is in question.

The Results of Lack of Attention to Management Succession

The continuing success of a business after the death or retirement of its top manager is dependent on a variety of factors. A company's ability to survive is conditioned by its financial strength, the adequacy of its plant and equipment, the competitive position of its products, and the current business situation, to mention only a few factors. But survival is also heavily dependent upon the basic skills of management and upon the foundation which has been laid in selecting and developing a successor for the chief executive. Also needed is some provision for continuing counsel to help the new executive adjust to his larger role as top manager of the company.

In many of the small companies studied, management had done little looking ahead or thinking about the problem of succession. What has been the result? In extreme cases this lack of provision for management succession has culminated in liquidation. The experiences of the Theodore Cutler Co., an owner-managed firm, and the Middle Atlantic Tire Co., a publicly owned concern, illustrate this result.

The Theodore Cutler Co., founded in 1901, grew and prospered primarily because of the inventive genius of its owner and founder. Sales of the company's major product, bottling machines, grew from $400,000 in the 1930's to a high of $1,700,000 in 1941. In spite of this growth, Mr. Cutler made no change in the uses to which he put his supervisory organization. The company's sales manager, production manager, and treasurer were employed primarily to handle the routine details of their operations. Mr. Cutler spent his time designing new and ingenious filling equipment and paid little attention to the other departments. As he grew older, he became physically unable to get around and developed a far-reaching internal espionage system which created much ill will in the organization. In 1941 he brought in another designer to assist him, but the arrangement did not succeed. Mr.

Cutler was more skilled in taking an idea and building an experimental model than he was in suggesting ideas and reviewing work; consequently, the designer left.

During the 10 years 1942-1952, Cutler's sales and profits declined, despite the postwar boom in the company's markets. Labor disturbances flared up several times as a result of substandard wages. In 1952 Mr. Cutler died, and the company was voluntarily liquidated. Eighty employees and three members of management lost their jobs. The last 10 years of declining management had greatly diminished the value of the principal asset in the Cutler estate.

The Middle Atlantic Tire Co. was a larger publicly owned firm, founded in the early 1900's by two former employees of an Akron rubber manufacturer. Under their management the enterprise had a mediocre record. In 1931 John Farmer, a regional vice president for a large materials manufacturer, joined the concern as president, accepting a 50% cut in salary in order to get a chance to "put my own management ideas into effect." Under his vigorous management the company grew and prospered as a small regional tire and rubber products producer. Sales reached a peak of over $5 million in the late 1940's, and the number of employees totaled several hundred.

In early 1948 Mr. Farmer had a serious illness which forced him to be absent from the company for several months. During that period the business was managed by a triumvirate of vice presidents; the result, a loss of $140,000. Mr. Farmer returned to his post and restored profitable operations, despite the increasingly difficult competitive position of the industry, but early in 1949 he died. Various officers were tried out as top manager, but without success, and finally an outsider was brought in as a last resort. Twelve months after Mr. Farmer's death, creditors of the company foreclosed, and the assets were sold.

Mr. Farmer was a skilled and successful operator of Middle Atlantic. He built up an executive group of vice presidents who could capably handle their respective departments. He failed, however, to develop any replacement to fill his own position.

There is evidence to support the conclusion that in a business recession many small firms, which now somehow stagger through a period of management changeover, would face more serious trouble. Generally excellent business conditions during the 1940's and early 1950's have acted as economic crutches for small concerns which, failing to provide for successor management, have been helped along by prosperous times until new leadership has had time to develop. Even in boom years, however, liquidation may be the end result of failure to prepare for management succession.

Less drastic than liquidation, but still undesirable, the forced sale is another possible outcome for the company left without provision for succession. The Steven Long Co. is a case example. The Long family had founded the company during the 1880's and had provided it with aggressive management for over 50 years. After the death of Steven Long II, Mr. Ehrlenbach, the production manager and senior company officer in age and years of service, was put in charge. Limited profits plus heavy dividend payments to Mr. Long's widow gradually weakened the company's financial position. New product developments in the industry were either overlooked or discarded because they required a heavier investment than the company could make. When Mr. Ehrlenbach died in 1945, the Long estate was forced to sell the company under conditions not favorable to its bargaining position. The remaining management group was very old and incapable of furnishing a successor manager. Furthermore, the company's competitive position was weak.

Evidence that the Long case is typical of many others is brought out by Professors Butters, Lintner, and Cary in their study of corporate mergers.[2] These authors say that one of the important considerations motivating the sale of small companies is the lack of adequate management replacements. The results of the present study confirm this conclusion.

A third frequent and major result of inadequate attention to top management succession is a period of very unsatisfactory operations when an unseasoned manager assumes

[2]J. K. Butters, John Lintner and W. L. Cary, *Effects of Taxation on Corporate Mergers* (Boston, Harvard Business School, Division of Research, 1951), p. 214.

control. This is most noticeable when the new management inherits a great number of unsolved problems from its predecessor. In such cases the new manager must begin to cope with these problems at a time when all his energies are needed to learn his new job and to work out his new relationship with other members of the organization.

The Ames Company case illustrates this situation. Grandfather Ames, an English immigrant, founded the company in 1870 to exploit his designs for industrial mixing equipment. Ames was able to get patents on the machinery and to build up a very successful operation. When he died in 1934, Mr. Raymond, his assistant, became president.

Mr. Raymond directed the company for the next 14 years. In that period certain changes appeared in the market for the Ames product. The company had specialized in serving medium-size producers, but continuing competitive pressures gradually began to force the latter out of business, leaving the small specialty concerns and the very large producers. Ames machines were not easily redesigned to serve the remaining markets, and the company's sales, profits, and competitive position declined.

Mr. Raymond suffered a serious heart attack in 1948, and the Ames family put Carl Baker, the 30-year-old sales manager, in charge. Mr. Baker had worked for the company since graduation from high school, as salesman and then as sales manager. He stated that his title of sales manager had been more honorary than actual, since Mr. Raymond had handled all the major accounts.

The company lost money for the first three years of Mr. Baker's leadership, but he estimated that the current year would show a small profit. In describing his advancement, Baker said that he had run into a great deal of resentment from the older members of the management group. He had been obliged to discharge the chief engineer and secure a replacement. "In addition, I wasn't too sure what I was supposed to be doing. I had to deal with problems about which I knew little. We needed to redesign our product completely to get at the small specialty mixers market. As a result, the production facilities had to be reworked, and I had to teach the sales force how to handle the new market."

The Ames Company's banker stated that young Baker had shown a great deal of promise, despite the company's poor showing. He said that Baker had been forced to rebuild the product line and redirect the sales efforts while trying to take over from a group of older men who all felt they should have been made president. "The Ames Company has paid a heavy price to educate Baker—three unprofitable years during good business conditions—but they have a good manager now. It takes time to turn out a good manager, and you pay the price sometime or another."

A somewhat similar case is that of the Bender Machine Company. A Wisconsin concern, Bender had been founded before World War I by two brothers. It grew from an original investment of $2,000 to a net worth of $500,000 and sales of $1,500,000 in 1949. In that year the brother who handled all the sales and office work died, leaving the entire burden of management on the surviving brother, who had been concentrating on running the shop.

Though market conditions were generally favorable, Bender's sales dropped slightly, and profits were off sharply in the following years. In an effort to bolster sales, the surviving partner began to devote less time to supervising production and more time to customer problems. The result was an increase in production costs and a reduction in product quality, which had been one of the company's major competitive strengths.

In 1952 the remaining brother suffered a heart attack. He stated that neither the company treasurer, the assistant sales manager, nor the master mechanic could take over. Both founders were childless, and the only family member available was a nephew 28 years old, who had no business experience. The surviving partner had tried unsuccessfully to interest an outsider in taking over management of the concern.

The Bender Company had already paid a price for lack of adequate attention to succession, even before the full impact of this problem was felt. With only a part-time manager on the scene, operations might well have been more seriously affected. Increasing competition and unfavorable earnings made it unlikely that an outside manager could be attracted

through the offer of a tempting salary, especially as the Bender "women" and the surviving partner had to be supported. The partner concluded that the company might have to depend on the young nephew. Thus Bender very possibly may be looking ahead to the same period of unsatisfactory operations that confronted the Ames concern.

Still another typical result of failure to think about the problem of succession is a hurried selection of the new manager under circumstances hardly conducive to choosing the man best fitted for the job. A vacancy at the top is very often filled at the last moment by whatever member of the current management group is oldest in age, point of service, and friendship with the previous manager or owner. Such a procedure was described by one businessman as producing "accident management."

The selection of the new general manager at the last moment and without preparation has, in extreme cases, produced some very capable leaders; it has also produced some very poor executives who have run their firms into serious trouble. More frequently the result has been the selection of a man who manages the company by letting it continue pretty much "as is," with little change in policies or procedures, little questioning or review of established objectives and competitive niche. The change in top management has not been used as an opportunity to reappraise but rather to continue past tradition. The cases of the Burgess Boiler Works, the Diamond Mine Light Company, and the Food Processing Corporation point up the results of such a situation.

The Burgess Boiler Works had grown steadily after its founding in 1902. Originally a boiler repair shop, the company had expanded into the fabrication, erection, and repair of boilers throughout the central Ohio region. In 1914 the Burgess family sold its stock to a group of investors, and Mr. Taylor, the company's sales manager, was made president and general manager. Mr. Taylor's vigorous direction resulted in expansion in terms of sizes, types, and numbers of boilers produced, and also in new lines involving metal shaping and forming. Annual sales reached a peak of $2 million in 1924. In the next year Mr. Stubbs replaced Mr. Taylor after

the latter retired. Mr. Stubbs had been the company's chief engineering estimator for many years and had a very thorough knowledge of boiler construction and engineering.

Under Mr. Stubbs's administration, as well as that of his successor, Mr. Alger, the company stood still. In 1952 dollar sales had risen somewhat over 1924, but unit sales had declined. Profits had been adequate but not strong. Company equipment, buildings, and management were old but all in good running order. Ignoring advances in boiler design and the development of new metals that could be used successfully in both boiler and tank construction, the Burgess Company continued to concentrate on its standard line of small boilers and tanks for institutional and commercial use. This field continued to offer Burgess a steady source of profitable business. Management's policy of just holding the line was illustrated during World War II when Mr. Alger turned down an Armed Forces offer of technical and financial help to expand in tank and vessel work because he was not sure just what problems such a move would create.

In contrast, a competitor of Burgess began to expand during the late 1930's into a new and larger line of boilers and also into the shaping and welding of some of the newer metals which were coming into use. World War II offered a further opportunity to expand product, plant, and equipment; and management saw that this was done. Increased sales and profits provided the resources to expand the engineering and development section, which gave this firm a technical lead over its competitors.

Burgess, under Mr. Stubbs and Mr. Alger, let slip its opportunities, both to expand old lines and to invade new fields. As general managers, Mr. Stubbs and Mr. Alger lacked the ability to do more than just keep the company going. Both men had been effective in their former positions as heads of the Burgess engineering division, but neither had received any special coaching or training to prepare him for more complicated duties. Management succession for Burgess had been handled by waiting until a replacement was needed, then by promoting some member of the current executive group to the vacant top position. This method of selecting a leader was

adequate to keep the company in business but did not permit it to forge ahead in the vanguard of competition.

The Diamond Mine Light Company case illustrates a different but also typical result of this process for selecting successor management. Mr. Brown, the company's owner-manager, became seriously ill in 1938, and his wife turned to the firm's treasurer, Mr. Barlow, for help in deciding what should be done. Mr. Barlow had been at Diamond for many years, handling all accounting and personnel work. Other officers included a sales manager and a shop superintendent. All these men were in their fifties.

When Mr. Brown died several months later, his wife decided to continue the operations of the company. She was given the title of president and chairman of the board, and Mr. Barlow, as general manager, became the executive head of the business. Mr. Barlow told customers and employees that he planned to carry on with the same policies and objectives which the preceding management had followed.

During the next 12 years significant changes occurred in the field of mine lighting, which made the Diamond product obsolete in many of the larger and better equipped domestic mines. As a result of these technical advances, one of the major electrical companies in 1946 offered to make Diamond its exclusive licensee in producing and selling a new lighting system which the large company had developed. Mr. Barlow, after conferring with the other executives, decided to turn down this offer because it meant a major shift in company production operations.

Diamond's operations for 1950 were unprofitable. During that year declining domestic business plus the loss of foreign markets to German competition forced Mr. Barlow to reappraise the company's position. He decided as a result of this study to enter the industrial lighting field, which required the development of a new product line and the establishment of a sales program to reach the new market. By 1952 the company had lost a substantial amount of money and had not yet been able to compete successfully in the new field. As long as leadership involved only routine operations, Mr. Barlow had been capable of handling the company. He could keep the business

rolling along, but he did not have the administrative skills necessary to effect a major readjustment of policies and operations.

The Food Processing Corporation offers an even more dramatic example than the Burgess and Diamond situations. Under the direction of the three Haven brothers who founded the business, Food Processing pioneered in merchandising packaged foodstuffs. After the death of the third brother, one of the founders' sons, who had been working as a production supervisor, became president. This solution was questioned by the executor of an estate with large stock interests in Food Processing who had serious misgivings about the son's executive abilities. He accepted the appointment only with reluctance. The executor commented that to locate and attract an outsider would have taken many months and he did not believe that the concern could afford to be without top leadership for that period of time. "Under the circumstances," he concluded, "we just took the best available."

Young Haven's leadership of Food Processing produced major changes in the way the company was managed and in its policies and operating procedures. The three brothers had worked in the detail of day-to-day business and collectively had agreed on over-all company problems. Young Haven gave up his production supervisory responsibilities and spent most of his time on what he described as "policy matters." He did not have amicable working relationships with other members of management.

When company profits disappeared with the return of postwar competition, Mr. Haven decided the answer was to change the company's policy of selling to wholesale and institutional accounts and go after the "housewife" market. He undertook a vigorous merchandising and advertising campaign which cost Food Processing several hundred thousand dollars during the next few years.

The program was not successful. Over a five-year period the net worth of the company was reduced by two-thirds. By 1951 there was no evidence that its competitive position had improved, and under Mr. Haven's direction there was little reason to believe it would. The executor characterized this

performance as "fainting management—it isn't dead, but it doesn't do anything very well."

The effects of not preparing for management succession are sometimes easy to see—for example, when the company is sold or liquidated, or when major losses are quickly incurred. In countless other cases the effects are not immediately apparent. Either way, the cost is real and substantial. Where adequate provision for successor management has not been made, the new leader is often chosen under unfavorable conditions. Since the position must be filled rapidly, the time which can be spent on selection is short, and the candidates considered are therefore usually members of the company's own management group. This often limits the caliber of the replacements which can be secured.

Such was the case in each of the three firms just reviewed. Run-of-the-mill management kept these small companies alive, but each paid a price. The Burgess Boiler Works bypassed its opportunities for growth. The Diamond Mine Light Company was hit by a product crisis so severe as to limit its chances for survival. In the Food Processing Corporation, assets were being rapidly wasted. In each of these three cases management was put in without much attention or thought as to what the manager's job was, or the requirements it imposed on possible candidates.

In Burgess and Diamond the new managers could and did handle routine day-to-day operations with some degree of success. But they failed to balance the need for concentration on everyday jobs against the need to examine and review more basic problems: What do we have to perform well to continue in business? What are the obstacles to our continuing as we now are operating? What changes in company goals would be helpful?

While their titles had changed, the managers of Burgess and Diamond continued to operate more or less as they had when they were simply department heads. In contrast, Mr. Haven of the Food Processing Corporation became a "feet-on-the-desk" executive who concerned himself mainly with major shifts in company policy. His previous work in the pro-

duction area had not fitted him for making these decisions, and his company consequently suffered.

Running a small business requires administrative skills different from and more complex than those required to handle one activity or department. Where this is not recognized, and where little advance provision is made to meet the problem of management succession, the job of finding an effective replacement becomes much harder. When selection is left to chance, too often the result is a management of limited ability which can keep the company going only if no major changes in its business environment are encountered.

Some Warning Signs

Inadequate provision for successor management produces a wide range of results, some of which have just been detailed. In companies where succession problems have not been foreseen and where difficulties have later developed, certain common characteristics appear. When these "red flags" are numerous in a particular situation, there seems to be considerable evidence that serious trouble is brewing.

It is a warning signal if in any company the top manager makes all the major decisions himself, and his department heads are only assistants in charge of the routine business of the day. The more vigorously a company is dominated by its president, the less opportunity there is for his subordinates to learn anything about over-all company problems and the top manager's job. If the company's next general manager is chosen from such a group, the successor will be penalized in two ways. First, he will not have any general manager experience; second, he will not have a strong executive organization to help him during his first critical years.

Another "red flag" in many cases is the presence of a management group which has grown old together. It is not uncommon to visit a concern where the three or four members of management are all in their fifties or sixties; often they have been working together for a long period of time. Under such circumstances companies have found that their management

groups had to find replacements within a few years, not only for the general managers but also for other key members of the management team.

The unwillingness of a company to utilize any outside help is another storm warning. The attitude that "this is my business, and I don't want any damn lawyers or bankers sticking their noses in my outfit" seems part of a prescription for trouble. Such a policy makes certain that the small company will have to work out provision for management succession without the benefit of outside counsel or review.

A final indicator of trouble ahead for a company facing management replacement is the existence of a stockpile of unsolved problems. When the incumbent leader sidesteps tough questions and ignores the "dirty work," he provides a legacy of trouble for his successor at a critical stage in the company's history.

When any or all of these warning signs are evident in a small business, there is good reason to believe that the transition from the old to the new general manager will be difficult. While some factors affecting the success of a management changeover are beyond the control of the small businessman, the "red flags" listed above are problems which he can do something about.

CHAPTER III

Why Don't Small Companies Prepare for Management Succession?

It is paradoxical that many a small businessman makes "the business" the center of his life, strives to enlarge and strengthen it as a monument to his success, and yet fails to provide for its long-run survival by taking the steps needed to develop successor management. Many of the managers interviewed for this study did not mention the question of succession as a problem of major concern. In their actions many gave the matter little or no attention. A lawyer who had a number of small businessmen as clients commented that the latter would not sleep well at night if assets such as plant, machinery, and equipment were not well insured. These same managers, he continued, do not seem concerned if there is no "executive insurance" for their companies in terms of provision for top management replacement. They speak emphatically about the need for good management in small firms and then assume that such qualified managers will automatically be on hand when they step out of the picture.

Why small businessmen ignore succession is a question that cannot be fully answered. The purpose of this chapter, however, is to investigate some of the explanations given by businessmen for their neglect of the problem, as well as to explore other possible causes.

Rationale for Inaction

Managers of small firms typically pointed out several reasons why they had not done much to provide for management succession. One frequent explanation is summed up in the following statement: "I can't afford to have replacements standing around this company. There wouldn't be enough work to keep them busy, and they would just get dissatisfied

and leave. Furthermore, the expense of carrying these men would reduce the ability of my company to pay high salaries to my executive group." Another frequent comment was: "We don't have the money to spend on developing management the way big companies do. They can afford to switch men around and send them away to these college training programs. We can't!" A different but also typical reason was the statement: "...and anyway, by the time I retire in five years, Mr.— will be able to take over my work."

There is some merit in these explanations, but they do not seem to give a very complete or accurate account of why small business fails to prepare for management succession. The statement, "We don't want replacements standing around," is a very understandable one. No firm wants men "standing around," but in those small companies which *had* taken steps to build up reserves of management personnel, there did not seem to be any lack of work for them to do. In fact, these reserves of newly developed management talent often served as the basis for an expansion of the company. Moreover, in other small concerns where attempts had been made to provide for succession, the development program did not typically involve having stand-by replacements for key executives and the top manager; rather, it gave all members of the management group a chance to take on increased responsibilities, under the supervision of the top man.

It is true that small companies cannot afford elaborate and expensive formal organizations for developing management. In companies where there was successful provision for succession, however, it had been generally accomplished with a bare minimum of costly formal training. Emphasis was placed on the kind of training which could be carried on as part of the company's daily operations.

In voicing these limitations on their company's ability to provide for succession, small businessmen stressed the element of cost. The conclusion of this study is, however, that cost is not the determining factor in preventing the development of successor management. Limited financial resources restrict what can be done by small firms, but other considerations appear to be more important.

As for the argument raised by some small businessmen that time will produce a successor, there is much evidence to refute it. Time may provide the experience and skills needed to make a general manager out of a department manager, but as Mr. Gershwin's song goes, "It Ain't Necessarily So." The title of president is often awarded to a man primarily on the basis of his long service as a sales or production manager, but this does not mean that he has the administrative skills and point of view to handle the new assignment effectively.

These explanations by small businessmen for their lack of action in providing for successor management do not furnish us with a very complete picture. It should prove useful to examine others. First, there are real limitations on the ability of a small firm to handle this problem, which result from its small-scale operations and restricted ownership. Next, and more important, some of the small businessman's methods of operation and patterns of behavior affect his ability to provide for management succession. In this connection his great emphasis on "today's" problems, his lack of skill in developing replacement management, and his abundant faith that everything will come out all right in the end are important considerations. Lastly, uncomfortable questions are immediately raised by any attempt to deal with the problem of successor management, and these serve to limit the small businessman's attention to the issue. In the following sections these points will be developed and illustrated by actual cases.

The Limitations of Size

Small size is one factor restricting the ability of a firm to cope with the problem of succession. Small size does not prevent successful handling of the problem but does create obstacles to its solution, one of which arises from the limited number of people in the small firm's management group. Typically, there are only three or four men in what might be called top management positions. This situation severely limits the field of possible candidates from which the successor will probably be chosen. Furthermore, as the total number of men in all management positions is limited, there are usually

no subordinate managers between the top group and the salesmen on the road or the foremen in the plant. This "thinness" in over-all management makes the small concern highly vulnerable to the unexpected loss of several of its top-ranking people. Few management reserves are available to fill in during any such emergency.

The small size of the management group has another effect upon succession in the small company. In many such firms studied, members of the management group typically had similar backgrounds and interests, long years of work associations, and a pattern of day-to-day operations which brought them into frequent face-to-face meetings with each other. They often shared adjoining offices or one large office, ate together, and in some cases participated in the same social events. Each executive was acutely aware of the detailed day-to-day business problems and activities of the other members of the group. As a result, a closely knit management group frequently developed, its members often expressing the belief that the successor manager should be selected from among themselves. Such a feeling is quite possibly common to many organizations, but it has special importance for the small firm. It limits the field of choice not only numerically, as has been mentioned, but also limits it to a group which has typically worked under a manager who has handled the important work himself and who has not allowed his organization to participate fully in the making and carrying out of key decisions. Furthermore, this strong group pressure to select an "inside replacement" makes it very difficult to bring in an outsider successfully. In one case studied, an outsider who was brought in at the last minute to replace the retiring president was forced to leave the company after two years because of the prolonged and successful resistance of the other officers.

Other obstacles to providing for management succession arise because a company is closely held; this is most likely to be the case in small concerns. In many such cases owner-management is in effect. The special problems of the family-dominated firm will be considered in a later section, but two factors should be noted here. In the first place, where a company is small enough to be closely held, a share in ownership

typically becomes a qualification for management. This may superficially make the choice less difficult, since succession will usually go to the family heir with the largest block of stock behind him. Actually the problem can be made much more difficult if the titular successor lacks the ability to administer the company effectively. Such a situation is not at all infrequent.

Secondly, the usual small "closed corporation" is very secretive about its operations and financial results. One small businessman expressed his point of view by saying: "I don't want every Tom, Dick, and Harry sticking his nose in my business. I own the company and have run it for 30 years without much help, and *I* will continue to run it the way *I* want it run." This gentleman, Mr. Davy of the Jasper Company, could speak with justifiable pride about his accomplishments and did so frequently. He had purchased his company in 1919 from the previous owner in liquidation and had built sales up to a point where they exceeded $2 million. In 1933, when the company was again nearly bankrupt, he had sold all his personal holdings and borrowed to the fullest possible extent in order to keep the business alive. "I had faith that my product was good and knew damn well I could sell, so I kept going. If outsiders had been in here, they would have tried to tell me to quit." Mr. Davy's board of directors consisted of himself, his wife, and his sister and served only to meet legal requirements.

This strong and understandable attitude of the small businessman, that his company operations are his own private affair, has prevented closed corporations generally from making much use of outside counsel and advice in company affairs. Without such outside interest, little attention is usually paid to the problem of succession until a chance accident or serious illness forces the incumbent manager to think about the matter. It is an unusual small businessman who asks himself the question: "Who will run this company when I'm not around?"

The lack of any outside counsel makes the problem of succession more difficult in another way. When sudden death or accident removes the manager, there is no one readily avail-

able to help the widow or the attorney to decide which of the present management group would make the best successor, or to locate outside personnel which might have to be brought into the concern.

Today Is Important—Tomorrow Will Take Care of Itself

Another major obstacle that prevents small companies from preparing for management succession is the pattern of operations followed by many small business managers. Their way of working places great emphasis on the detailed problems of today, with little, if any, attention given to planning for the future. According to Dr. Melvin T. Copeland,[1] the small businessman puts his emphasis on the *tactics* of the daily situation, instead of planning the longer-run *strategy* for his company.

The Universal Clock Company case illustrates this observation. Mr. Bauer, the company president, was a son-in-law of the founder and original president of the concern. When Mr. Bauer became general manager, he devoted most of his 10-hour day to supervising personally engineering and production. Emphasis on these operations was essential, since the company had built its original competitive niche on the basis of producing a durable clock at a very low price. Furthermore, in the early days of Mr. Bauer's administration company financial resources were slim, and meeting the Saturday payroll often meant pushing out rush orders for local firms and personally delivering and collecting for the orders. Sharp competition forced Universal to leave the clock business during the 1920's, and Mr. Bauer spent a considerable part of his time thereafter on the road, picking up precision manufacturing work to keep company equipment occupied. In 1930 he and one of the company engineers developed a mechanical measuring device. Mr. Bauer sensed the opportunity in that field and changed his production operations, concentrating company efforts on the manufacture of the new item. The results were highly successful, and in 1953 company sales and profits were at their highest peak in the firm's history.

[1]Director of Research, Harvard Graduate School of Business Administration.

Mr. Bauer's method of directing Universal had not changed significantly during his 30-odd years as president, although by 1953 the company executive group had expanded to include managers of sales, production, and purchasing, as well as a treasurer. Mr. Bauer still knew every detail of the company's manufacturing operations and personally checked a daily report on the performance of each production line. If production varied from what he believed could be accomplished, he himself worked with the foreman and corrected the situation. His interest in engineering prompted him to work with project engineers on product improvement problems. Mr. Bauer said that the sales manager, treasurer, and purchasing agent "ran their own shows." The company did little forward planning, with the exception of raw material estimates for the following year which were drawn up for company suppliers of scarce materials. Mr. Bauer summarized his operating practice, saying: "It's the problems on my desk this morning that I have to worry about. Tomorrow has to take care of itself."

Mr. Bauer's continuing concentration in the engineering and production work of his company is understandable. In the early days of his leadership, his personal participation in production work was necessary just to keep the company alive. In later years, although Universal's financial position improved, much of the company's competitive strength still rested on its ability to produce a precision instrument at a low price. The company had never had a very substantial sales program, depending instead on a quality, low-price appeal to attract customers. Mr. Bauer believed that manufacturing, as the "guts" of his business, should be the place where he put in most of his time. Furthermore, his close interest and participation in detail operations were essential to compensate for the minimum system of formal reports which the company employed. Mr. Bauer commented that written reports can be made to show anything the sender wants. "I go down to engineering and *see* what's happening. I don't need a seven-page memo. And in a small company, when a customer or supplier calls, he wants to talk with the president, and I have got to know the answer, or else."

Mr. Bauer's continuing concentration on the details of company operations completely filled his long week day and left little time for any attention to longer-range problems. An underwriter's survey of the Universal Clock Company pointed out that the firm faced future problems of product obsolescence, and finding a replacement for Mr. Bauer. He and his four major executives were all in their fifties. Two of these men were not well, and Mr. Bauer expected that one would have to retire within a year. He did not believe that any of his present executive group could fill the top management position if he himself was forced to step out.

Mr. Bauer ran the Universal Clock Company very much as a "working president." His intensive participation in the details of company operations had been partially responsible for both the company's present operating successes and its failure to deal with the broader long-run problems of product change and management succession. The small businessman, as typified by Mr. Bauer, will probably always be deeply committed to a close watch over and participation in the operating detail of his business. Some stepping back from day-to-day work, however, might provide him with the opportunity to work and reflect on other company problems of a far-reaching and longer-run nature.

The Small Businessman as a "Coach"

The ability of a manager to develop or coach men to take on increased responsibility is important whether a company is large or small. It is an uncomfortable fact, however, that individual competence in running a business is not always accompanied by equal skill in the development of men. In the usual situation the small business manager's conception of his job, and understandably so, is to keep his company going and, if possible, to keep it growing. He does not include as a major responsibility the development of replacement management.

If successor management for a small firm is to be developed, however, the burden of carrying out that job falls primarily on the top manager. Many small businessmen—and there is

evidence to include also managers of large firms—are not skilled at developing men for increased responsibility in company operations. This lack of skill limits small business in preparing for management succession.

What hinders the small businessman from doing something about management development? Several pertinent solutions are suggested by an examination of the small businessman's daily pattern of activity. Education is a long-run and exasperatingly slow process, requiring ample amounts of time, attention, and patience. It calls for an ability to sense what can be done in the current situation to help a subordinate prepare himself to handle future problems. This ability to sense future needs and to relate them to current operations is not common. As indicated by the Universal Clock case, the small business manager typically pays scant attention to long-run problems. Mr. Bauer's concentration on and participation in the immediate situation, for example, did not permit him to give attention to the matter of educating his managers.

A more important barrier to the development of managerial personnel in small companies is the small businessman's method and manner of day-to-day administration of the company. He normally limits the participation of other executives in the direction of the company and carries the major burden on his own shoulders. Such procedures do not make for the kind of situation in which management growth is likely to occur. Mr. Reed's management of the Dixie Company is a case in point.

Mr. Reed had purchased a minority interest in the Dixie Company in 1942 from the Gildea family interests. Mr. Reed had been in the business of manufacturing plumbing supplies for over 40 years, and he brought to the company new ideas and products which substantially increased its sales volume and profits. The company's top management group in 1953 consisted of Mr. Reed, who was president and sales manager; a treasurer; production manager; and office manager. Although the latter three were designated as officers of the company, they handled merely routine aspects of their jobs, participating only to a limited extent in the general direction of the firm.

Mr. Reed ran his company. He prided himself on his ability to handle any job in the business as well as or better than the employee assigned to it. He spent most of his time in sales, maintaining relationships with large plumbing supply wholesalers, but he also kept a tight rein on the other departments. In the production area, for example, he took care of all negotiations with the union, set wage rates, and hired and fired the foremen. Mr. Reed settled questions ranging in scope from deciding on the purchase of a water cooler to a determination of the exact quotation to be made on a $30,000 sale to a major account. When the company branched out into manufacturing contractor supplies, Mr. Reed said he had looked the field over, decided it was a great opportunity, purchased the necessary manufacturing machinery, and established the new sales accounts. He stated that his executives did not have the background or experience to call the shots on such a move. "I tell them about it, but they can't help me in working out a deal like that."

Mr. Reed's administration of the Dixie Company from a financial point of view was exceptionally successful; from the viewpoint of management development it was unsuccessful. Mr. Reed was in his late sixties, and in the event of his retirement, no member of his executive group appeared capable of taking over. Mr. Reed's direction had suppressed both the interest and participation of his management group in the over-all leadership of the Dixie Company. He had not been willing to take the time and trouble to work out major company problems in a group effort with his managers. He wanted to do the job himself; he did not want to use his subordinates except in limited and routine roles.

One may therefore conclude that the development of replacement management is limited by the manner in which small businessmen, like Mr. Reed, operate their companies on a day-to-day basis. If the small business manager is to develop a replacement for himself, he must change, in varying degrees, the pattern of his daily work so as to limit what he does himself while increasing the participation of others. That is a difficult and in some cases an impossible assignment for him to carry out. This fact partially explains why the

problem of succession is likely to be a continuing difficulty in small business.

Even in small companies where the problem of developing successor management is recognized, barriers to effective action remain. Mere recognition of the problem does not effect solution of it. The manager must develop ways and means of dealing with the issue. Several case situations were encountered where the manager expressed concern because he did not know how to bring along his managerial group. One such case was the Quality Food Company, a small southern producer of margarine, mayonnaise, and salad oils.

Mr. Chapin, the company president, had undergone major surgery, and his doctors had strongly advised early retirement. After surveying his staff, Mr. Chapin concluded that two members of the group were possible candidates for the general managership. "My problem," he said, "is to bring these two men along rapidly in the next couple of years. But how do I do that? One spot where we can make or break ourselves is in the purchasing of edible oils. Today I committed Quality Food for a six months' supply. Why did I buy today? I don't know myself. Guess I figured things were right. But how do I pass that know-how on to my replacements? If I let them try it and they make a good mistake, we can get the company into hot water, and fast."

In another case situation, Mr. Kemp of the Meridian Tool Company stated that he planned to retire in seven years at age 67. In discussing his succession plans, Mr. Kemp remarked that he was very unsure as to how he should bring his younger managers along. "All this talk about executive development leaves me up in the air," he said. "What I want to know is, specifically, how do I make better managers of my four department heads so that one of them can take over some years from now? I'm not even sure I know myself what this job requires. I sit here and handle all the foul balls that people throw at me and try to keep peace among my department heads. There isn't a month goes by but what the production people are screaming about the number of new items going through, and the sales manager never seems to be satisfied with the length of our present line. He always wants

something new for the salesmen. I've got to keep them both happy. But how can I pass that savvy on to anyone else?"

The uncertainty of both Mr. Chapin and Mr. Kemp emphasizes several questions that confront a small businessman who is thinking about developing a successor: What is my job? Are my abilities skills which can be passed on to a successor? If so, how? If the requirements for the top manager's job could be made explicit and if administrative skills were readily transferable, men like Mr. Chapin and Mr. Kemp could bring along their successors more easily. This, however, is not the case. Whether a company is large or small, the top managerial job is a difficult one to define in explicit terms, and its administrative skills are not easily transmitted. Mr. Chapin's concept of his job centered around the field of buying; Mr. Kemp's centered around his work in balancing the demands of various department heads. In both cases the managers did not know how to get across to their possible successors the abilities which they believed were needed to run these firms.

Many small businessmen are not skilled at developing their management groups to provide for succession. This is not said in a spirit of criticism. The ability to instruct in any situation is not a common one. Furthermore, it is understandable why the small businessman runs his company as he does, shouldering most of the burden himself and concentrating on today's problems. Such methods have often brought short-run success in spite of their longer-run dangers.

Faith in the Future

Underlying many of the reasons why small businessmen fail to take action in the area of management succession is an attitude, difficult to define and yet pertinent to an appraisal of this problem. That attitude might be described as the small businessman's great faith in the future of his business and in his own ability to work out problems as they arise. In many cases his own experience in starting his business or in taking it through very difficult days reinforces his already ample stock of optimism in what he and his business can do. As far as suc-

cession is concerned, this optimism reflects itself in the point of view that something will happen to take care of the problem and therefore why worry about it.

One instance of such faith involves a Cincinnati manufacturer of precision cutting tools. The Green Company was founded in the depths of the depression by an unemployed tool and die maker. Mr. Green saw what he believed to be a great opportunity to use a new alloy in making standard cutting tools. Borrowing money from his relatives, he set up operations in an old garage and managed to hold the company together during its first five hectic years. On frequent occasions during those years, Mr. Green had to meet his weekly payroll by wagering the company's small cash resources on his ability to play billiards. His success at that game helped tide the company over several cash shortages.

In discussing his company, Mr. Green said that it exists today because he had faith in the basic worth of his idea. "Everyone told me that this couldn't be done and said they could show me figures to prove it. It is lucky for me that I wasn't smart enough to realize this couldn't be done. I just went ahead and did it." Mr. Green, despite suggestions, had not done any planning for management succession. "When I get ready to quit, I'll step down, and we'll worry about my successor then. I'm not going to bother about something that's a dozen years away. Things work out."

Succession Raises Some Unpleasant Questions

The small businessman's attention to providing for his replacement raises some bothersome longer-run questions. What do I do after this, and what does this mean financially to my way of living? The experiences of Mr. Jackson and Mr. Hancock point up these problems.

John Godfrey Jackson founded the Jackson Tube Company in 1907. He was proud of his operating record: sales had increased from $10,000 during his first year to a current figure of $4,250,000. He was even more pleased with his record of employee relations. Mr. Jackson knew each of his employees by his first name and helped them with family financial

problems. A large percentage of his men had been with the company for many years. Mr. Jackson stated that he had turned down several opportunities to sell the company because the idea of the Jackson Tube Company's being just another unit in a big company did not appeal to him and because a merger might mean the relocation of his factory and a loss of employee jobs.

The ages of the Jackson management group ranged from 62 to 66. Mr. Jackson noted that something should be done about bringing along a younger general manager but that this had not been done. He said that he was not ready to go "on the shelf," and since he owned the business, no one could make him retire. He pointed out that in his opinion most of his friends who had been retired from big companies were envious that he could still stay on the job. "What would I do if I didn't come down to the office each day? This business has been my life!"

In Mr. Hancock's case, provision for succession would have meant a substantial cut in his standard of living. Mr. Hancock was the president of a small, publicly owned Pacific Coast firm manufacturing electrical controls. His salary afforded a comfortable living for him and his family, and, in addition, his association with the company gave him supplementary benefits, such as business trips to visit company agents and memberships in various clubs and professional associations. Mr. Hancock's retirement would substantially reduce both his immediate cash income and the additional noncash benefits which accrued from his position as president of the concern. Consequently, Mr. Hancock carried on his leadership of the company, despite increasing age and poor health. There was no apparent successor available within the company, nor was anyone being readied for that job. It is very understandable why Mr. Hancock did not seem to be interested in taking action to provide for successor management when such action would have a serious effect on his future financial situation.

Cases like those of Mr. Jackson and Mr. Hancock are common in small business. These men ignored the problem of succession because of the troublesome questions it raised.

In neither case were there any means for forcing action. Mr. Jackson owned his own company and could determine what was to be done. Mr. Hancock's company, though publicly owned, did not have an active board or similar group to initiate action on problems that Mr. Hancock neglected. It does not seem probable that provision for management succession will be made in either company.

Furthermore, in those cases where a manager concerns himself with succession and where he is actually able to develop strong candidates for his own position, he himself becomes, or may seem to become, less indispensable to his company. This is strong medicine, too strong for many a small businessman to take. It is the easier course for him to put off any action which might seem to reduce his importance, either in his own perspective or in the eyes of his organization. One small businessman summed it up this way: "My banker has suggested that I bring along a potential successor. In effect he is asking me to supply the plank and then walk it!"

Summary

This chapter has explored the question: Why don't small companies do something about management succession? There is no single, simple explanation. The resources of small business, both financial and managerial, limit what can be done. More important, the small businessman's heavy involvement in the detail of day-to-day operations, his concentration on immediate tactics rather than on longer-run strategy, his ability to do rather than to teach, and his essentially optimistic philosophy that things will turn out all right do much to explain his lack of success in working out provision for management succession.

Can anything be done to help small business provide for successor management? In some companies there seems to be but slight hope that constructive action will be instituted. There is evidence, however, to indicate that constructive steps can be taken. Though many of the small firms studied did little to meet this problem, others were successful in preparing for an orderly management transition. These cases

of effective preparation for successor management are set forth in the following chapters. They illustrate a series of approaches to the problem, ranging in scope and timing from programs that provide only short-run, interim management to long-run programs for developing small company executive talent.

CHAPTER IV

Interim Management

MANY small firms leave management succession to chance; others look ahead and prepare to meet this problem. Where management takes an interest in the issue, discusses it, and prepares for the event, the results are often successful. Many such cases were discovered in the course of our research. Among them wide differences were found in company ownership, industry, and organization. But basic similarities were noted in the methods used by the managements of these concerns to provide leadership for the future. The primary purpose of this study is to set forth these frequently used and experience-tested approaches to the problem. It is hoped that they will open up avenues of investigation for the small business manager who must sooner or later meet the problem for his own firm.

This chapter will present one such approach—that of interim management. As the name suggests, interim management is usually not a long-term solution to the problem of succession. Rather, it is used to provide short-run leadership for a limited time until permanent management can be developed or brought in from other sources.

Advance provision for interim management is based on the realization that loss of the top manager is a major shock for the firm to absorb, especially when this event occurs with little prior notice. If temporary leadership is provided at such a time, the adverse effects of management turnover are lessened. Employees, customers, and creditors are notified that new management is available to continue company operations, usually without a major change in policy or *modus operandi*. Furthermore, interim management makes possible an unhurried selection of the permanent leader. Picking out a new chief executive is a long-run process. When an emer-

gency forces a hurried selection, the choice may not be the best available.

Several ways of providing for interim management were observed. One of these, the choosing of a second-in-command, was primarily the result of management attention to the succession question. Another method was to select a group of executives, all of whom participated to a certain extent in the general direction of the company. The third method, a corporate partnership, was in some cases a product of the manner in which the company was originally founded, or it developed as a result of the top manager's method of running his company. In other instances it had consciously developed as a way of assuring continuity of management. In either case, the partnership arrangement becomes the basis of company thinking and attention to the question of successor management. These three approaches to providing for interim management represent the commonplace efforts of small business managers to find ways of lessening the impact of management changeover.

Second-in-Command

A frequently observed method of providing for interim management was the use of a "second-in-command." In such cases, the manager selected an assistant, usually an older man, to participate in the general direction of the company while he also carried out his operating job. The second-in-command was generally kept up to date on over-all company problems, and he had access to company financial information, a symbol of authority in the small concern. If death or retirement unexpectedly removed the top manager, the second-in-command was available to assume direction of the firm immediately.

The Carl Paint Company is one example of a situation involving the use of a second-in-command. Mr. Carl had invented a new process for making paint and had organized his company to exploit this invention. The product was of high quality and met with a ready acceptance from the trade. As his company grew, Mr. Carl began to build a small executive organization. He selected his former secretary, Mr. Lark, to

be sales manager because of the latter's acquaintance with customer records and correspondence; he also hired a treasurer and a purchasing agent. Mr. Carl continued to supervise production, in addition to his executive responsibilities.

During the 1940's Mr. Carl began to bring Mr. Lark in on more and more of the company's over-all problems. Mr. Lark became a member of the board of directors and represented the firm in dealings with government regulatory agencies. In 1948 he was designated executive vice president of the company, although he still continued to devote most of his attention to selling.

In early 1952 Mr. Carl, aged 60, underwent major surgery, and it was soon evident that he could not resume active direction of his company. He immediately designated Mr. Lark as the chief operating executive. Company operations continued without interruption and at a profitable level. Company suppliers and customers were well acquainted with Mr. Lark and cooperated with him, and he in turn maintained excellent relations with his fellow officers and employees.

Mr. Carl's attorney believed that Mr. Lark could handle company affairs for several years, despite his limited experience outside of sales. During this period, the attorney planned to canvass other paint companies in the area for a possible candidate. He also thought that within several years the Carl Company's order clerk, a man of about 38, might be brought along for the general managership.

In the case of the Carl Company, a second-in-command gave the firm a breathing spell either to develop, or to bring in from another company, a new top manager. In another instance, involving the Lanham-Christy Company, a second-in-command provided temporary management until an operating crisis could be resolved and a merger with another firm arranged.

The Lanham-Christy Company was an established southern manufacturer of truck and school bus bodies. In early 1949 Mr. Lanham had a very serious heart attack which forced his immediate retirement. This came at a time when the company was in the midst of a financial crisis resulting from high inventories and drastically reduced sales.

Mr. Davin, the company treasurer, had worked with Mr. Lanham since the founding of the company. Although he did not have any formal title indicating his status as "second-in-command," his position was recognized by the other company executives. When Mr. Lanham was away on sales trips, they brought their problems to Mr. Davin. In 1949 both men agreed that Mr. Davin's experience, concentrated as it was in the area of accounting and finance, did not fit him to head permanently a company where sales skills and acquaintance with school and municipal authorities were so important. Mr. Davin was amenable, however, to heading up the company until its current financial problems could be worked out and action taken to find a successor for Mr. Lanham.

Mr. Davin helped to resolve both problems. By sharply reducing expenses and selling off finished goods inventory, he was able to convince company bankers that Lanham-Christy could survive the crisis. At a later date, after efforts to attract a new president failed, he worked out a merger with a metal goods producer which was looking for a manufacturing plant in the South. Mr. Davin's interim management was in large measure responsible for keeping the Lanham-Christy organization alive. This was of importance, not only to the people on the payroll, including Mr. Lanham, but also to the small community in which the company was located. The failure of Lanham-Christy would have left the town without its major source of employment and tax revenue.

In the Carl and Lanham-Christy Companies a second-in-command served as a protection against the sudden loss of the incumbent leader. A second-in-command is also helpful in bridging the management gap that occurs where the chief operating executive is old and the remaining company officers are young. The Pioneer Oil Burner Company is an example.

Mr. Martin, president of Pioneer, was 65 years old. His attention had been focused on the problem of succession by the sudden deaths of several close friends, all managers of small local businesses which had run into trouble after losing their leaders.

Pioneer's management group consisted of a president, a sales manager, a production superintendent in his late sixties,

and a group of four younger officers, including Mr. Martin's two sons. Mr. Martin believed that the four younger men had an unrealized potential which additional years of experience would develop. He did not believe, however, that any of them could immediately step into his position in the event of an emergency.

Mr. Martin decided to handle the matter of succession by bringing in an older and more experienced general manager who could run the company for five or six years while the younger officers were acquiring additional seasoning and experience. To carry out this program, he hired Mr. Orton, who had been Pioneer's legal counsel for many years. Mr. Orton was 56 years old, knew Pioneer's method of operation and personnel well, and experienced little difficulty in assuming his new position.

Mr. Martin maintained personal direction of the Pioneer Company during his successor's first months with the company. Over a period of time, however, he gradually began to withdraw from his operating responsibilities and concentrated his attention on longer-run product problems. Mr. Martin declared that both he and the general manager were keeping a close watch over the younger men to make sure that one of them would be ready to take over when Mr. Orton retired. Although Mr. Martin hoped one of his sons would eventually become president of the company, he stated that his policy was one of watchful waiting with no definite commitments.

A significant disparity in age and experience between top management and possible replacements offers an opportunity for the successful use of a second-in-command. Such was the situation with Pioneer. In the event of the manager's death, the presence of a second-in-command limits the probability that a younger man will be put into a job for which he is not yet ready. Furthermore, it gives reasonable assurance to younger management that there will be a period of time for executive growth under circumstances which would permit a gradual taking on of more important administrative tasks.

The possibilities of using a second-in-command are not limited to older and well-established small companies such as the Carl Company and Pioneer Oil Burner. A case in point

concerns the Development Company, Inc., founded by Mr. Gans in 1946 to manufacture electronic equipment. Mr. Gans had been a chief engineer for a large electronics manufacturing company and started his own company to exploit the know-how and patents which he had accumulated over the years. By 1948 operations had expanded to a point where the company could support additional executive strength, and several of the outside investors in the company insisted upon Mr. Gans' hiring additional executive personnel. Subsequently, Mr. Fox, an engineering associate of Mr. Gans for many years, was brought in as assistant to the president and chief of the Government Contract Division.

In 1949 the company had approximately 85 employees, many of them highly trained technicians who had given up excellent positions in other companies to work for Development. All Mr. Gans' personal fortune, as well as that of his family and certain friends, was invested in the company. Mr. Gans' accidental death as the result of a hunting accident therefore posed serious problems for both his estate and the company. Mr. Fox was appointed acting president in the emergency; other company officers were skilled engineers who did not want to take a job that would remove them from the actual engineering development and production activity.

Mr. Fox was able to run the company by organizing his technically trained supervisors into an advisory board which provided general supervision and direction for the technical program. He further strengthened the business side of the organization by developing a treasurer's office and a purchasing department. The interested investors and the Gans estate representative had envisaged Mr. Fox's appointment as a temporary measure. His capable direction of Development Company, Inc., during the months following Mr. Gans' death, however, convinced both groups that he should be given the job on a permanent basis.

Those outside investors in the Development Company who had urged the hiring of a second-in-command had been primarily concerned with securing stand-by executive insurance in the event of Mr. Gans' unexpected death or retirement. An unforeseen by-product of this arrangement, how-

ever, was the obtaining of a stand-by manager with the potential to run the company over the long run. The Development Company's experience in this regard is not unique.

Having a second-in-command is a common device for gaining interim management. Its usefulness in a wide range of small businesses is enhanced by two considerations. Since the second-in-command is usually part of the operating group and handles some major activity, such as sales or finance, the expense of this type of succession insurance is small. In addition, the manager can, and often does, add a second-in-command to his organization without having to change substantially his attitudes or his manner of directing the company. For these reasons, he finds it less difficult to share the limelight with another executive.

Group Management

In some firms management provides for interim leadership by working closely with a small number of key lieutenants to a point where that group is capable of running the company on a short-run basis. When a group approach to interim management is employed, several advantages accrue. Participation in such an arrangement gives the key officers valuable experience in pulling together as a team on problems of general company significance. There is an added advantage in those common situations where the top manager is also responsible for a major operating job, such as sales. Group action in such cases enables the lieutenants to become more thoroughly acquainted with the details and problems of the manager's particular responsibility. If the manager leaves, the other officers have some knowledge of his job and how it might be handled by another person. As contrasted to the employment of a second-in-command, group management does not designate a specific successor. Its objective is to use an operating management group to run the firm until a successor can be selected. The case of the Snyder Corporation illustrates the usefulness of group management to a company faced with the problem of succession.

With defense orders beginning to complicate company operations in 1940, Mr. Van Burton became increasingly

concerned about his own ability to continue to carry the primary management responsibility for the Snyder Corporation. Mr. Burton, at 72 years of age, was proud of his capacity to handle a full day's work. He enjoyed telling business acquaintances that in his company the younger men constantly had to slow him down. Nevertheless, the strain of directing the company during the depression, and the promise of additional pressures during the period which lay ahead, prompted Mr. Burton to look around for ways of strengthening his organization.

He was hopeful that in the long run his son, together with a younger son of his former partner, would be able to head up the firm. This, however, would not offer any solution to the immediate problem. While the son had capably performed minor supervisory work in the company, he had not yet held a major administrative position.

After considerable discussion, Mr. Burton formed what one of the company officers described as a "regents' council." This group of officers met informally at frequent intervals to discuss operations. In the early get-togethers, Mr. Burton met with the group, but he did not continue this practice. When young Robert Burton became production manager, he joined the group on an equal footing with his father's other subordinates.

Several years later Mr. Burton became seriously ill and withdrew from active participation in company affairs, although he retained the title of president. During his illness the management council directed the Snyder Corporation. Each member remained responsible for his own department, and the whole group met to discuss more general company problems.

When Mr. Burton died some time later, the council continued to operate the company until finally Mr. Burton's son was named president. Robert Burton stated that without the help of this group, his own job of taking over top management would have been much more difficult. He continued the council as an integral part of his management organization.

Another example of the use of a management council is found in the experience of the Bent Company. Several years

before his death Mr. Harold Bent began to make plans for a gradual retirement from the management of his firm. He hoped that his son Peter might be interested in, and eventually capable of, running the company. After Peter was discharged from the service, Mr. Bent appointed him general manager, and he himself became chairman of the board. This arrangement was unsuccessful because Peter attempted to change many of the policies which his father believed were essential to the company's success in the gasoline motor field. Young Bent was subsequently released from the company's employ.

In a second attempt to provide for management succession, Mr. Bent organized a committee composed of Mr. Kine, the company treasurer, and Bent's three sons-in-law, who headed up the sales, production, and personnel operations for the company. Mr. Bent gave this committee a heavy load of major operating problems. During one month he asked the group to consider and give him its recommendations on questions such as a proposed reduction in the price of the company's main product line, whether the company should pay a dividend, what should be done with a warehouse the company owned, and what could be done about finding a replacement for the company's former wholesaler in Chicago.

In 1951, while on a vacation, Mr. Bent died. His widow immediately placed full management responsibility in the hands of the committee, of which one son-in-law was designated acting executive vice president. It was the intent of the estate to watch the performance of the acting executive officer, as well as that of the other members of the committee, for a period of time before making the final selection of Mr. Bent's successor.

In the case of the Black Machinery Company, a group management approach was employed by the company's president to make sure that interim management would be available, and also to secure the interest and advice of his executives in connection with the longer-run succession problem.

Mr. Stein was president and factory manager of the Black Company, a small, publicly owned wire products manufac-

turer. He had discussed the question of successor management with his senior executives over a period of many years. The company's board of directors was not very active, and Mr. Stein believed that the initiative for any succession arrangements would have to come from within management. One of the early outgrowths of these discussions was the formation of an executive board, composed of the company's senior executives, which was given the responsibility for running the company in Mr. Stein's absence.

Several years before his planned retirement Mr. Stein asked the executive group for its help in making the approaching top management transition an orderly one. One of the group's recommendations was that the company go outside and secure a superintendent who could gradually take over Mr. Stein's factory management responsibility. When this had been done, the executive group suggested and followed through with a proposal to work more closely with Mr. Stein on major company problems.

Mr. Stein believed that over the years this group had given the Black Company continuing insurance in the event of an emergency change in top management and that it was fully capable of handling company affairs during the interim period until his successor should be selected. Mr. Stein also observed that one of the younger members of the group had become its unofficial leader, and he believed that the group might well recommend that officer to the board for president. Later events substantiated Mr. Stein's judgment. The development and use of an executive board proved to be an effective element in the Black Company's program to provide for successor management.

In contrast to the use of a second-in-command, the group management approach permits the participation of all the management organization in the problem of succession. Such an approach to the matter holds promise for a broader development of the small company's executive group. It offers a source of counsel for the incumbent manager as well as administrative support for the new president when he steps in.

Corporate Partnership

Though possessed of a corporate charter, desirable for its limited liability protection, many small concerns function under management arrangements similar to those of a partnership. The story of two men with complementary skills and abilities who start a new enterprise is a commonplace one in America. In this way the Radex Company was founded. Mr. Gordon, a practical engineer, and Mr. Woodcock, a salesman, decided to pool their meager financial resources and form a company to manufacture radio components. Starting with a few hundred square feet of space in a New Jersey loft, the company gradually expanded until it employed about 300 persons. Mr. Gordon handled all the buying, manufacturing, and accounting work; Mr. Woodcock did the selling. When Mr. Woodcock died in 1949, Mr. Gordon took over as president and general manager of the firm. Continuity of management had been achieved for the Radex Company, not as a result of any conscious planning for it, but rather because of the nature of the company's management organization.

In some small companies, however, the manager utilizes a partnership arrangement to secure, among other benefits, more adequate provision for management succession. Mr. Putnam, founder of the Standard Processing Co., graduated from an engineering college in 1932. After working for a year, he decided to form his own company to manufacture auto repair equipment for filling stations and garages. The first years for the new concern were lean ones, but Mr. Putnam gradually developed a profitable enterprise. In the late 1930's Mr. Joiner, a young business school graduate, joined the company. He demonstrated considerable business ability and soon was handling a wide variety of assignments.

World War II sharply increased company sales and profits, and its net worth increased substantially. Although he was still relatively young, Mr. Putnam was concerned over the vulnerability of both the company and his estate in the event of his death. Mr. Putnam had run the company almost single-handed, and there was no apparent replacement for him in the firm. Furthermore, his estate consisted entirely of Standard

Processing stock. He believed that the market price of the stock would be greatly reduced if his executors had to dispose of it at a time when the company had lost its president-manager.

To limit the risk, Mr. Putnam worked out a plan whereby Mr. Joiner would take over the supervision of day-to-day company operations, while he himself would concentrate on engineering and longer-range projects, including a plan to acquire a new plant. At the same time, arrangements were made for Mr. Joiner to buy, over a period of years, a substantial stock interest in the firm. Mr. Putnam said that such a partnership provided the company with "executive insurance." He cited one instance where Mr. Joiner had taken over management of the company for an extended period while he was recuperating from a serious automobile accident. In the event of his withdrawal from active management, Mr. Putnam was confident that Mr. Joiner could handle company affairs, if not permanently, at least until longer-run arrangements could be made.

In the Standard Processing Company, the partnership arrangement was formally established to help assure top-management continuity. In the case of the Crandall Chemical Company, although the partnership was more informal and less apparent, it also provided for a temporary management reserve against the sudden loss of the company's chief executive.

Mr. Wunderlee, in the early days as manager of the Crandall Company, had been confronted with a serious inventory, working capital squeeze. Mr. Holland, proprietor of a small public accounting firm, had helped Mr. Wunderlee during the crisis with both advice and a substantial loan. Over a period of years Mr. Wunderlee came to depend more and more upon Mr. Holland's counsel. Though his special sphere of interest, as a public accountant, was supposed to be finance and accounting, in actual practice Mr. Holland served as a general counselor and helped Mr. Wunderlee supervise all the company's activities. The two men complemented each other, not only in their operating interests, but also in their administrative skills and patterns of behavior. Mr. Wunderlee was extremely active; he liked to be on the road seeing

customers and investigating new opportunities. He was less enthusiastic about spending time in his office listening to his production manager or purchasing agent, and he did not like to be bothered with the details of cost and financial accounting. Mr. Holland, on the other hand, was more conservative and indicated that one of his big jobs was to keep Mr. Wunderlee from "taking on DuPont." It was understood that, in an emergency, Mr. Holland would step in and run the firm.

The use of a partnership where there is approximately equal division of ownership and management responsibility helps make certain that in most cases there will be some continuity of management in the firm. In achieving this goal, however, some difficulties arise which may have to be dealt with sooner or later. Mr. Jaffrey's experience with the Royal Company is pertinent.

Mr. Jaffrey, who was in charge of the factory, and Mr. Brighty, who supervised office work and sales, had run the Royal Company for many years. The arrangement had been highly successful, both in terms of profits and in terms of personal working satisfactions for the two men.

When Mr. Brighty died in 1950, Mr. Jaffrey did not anticipate any serious difficulties in the management of the firm. The two executives previously had discussed succession many times, agreeing that the surviving partner would manage the company until a successor partner could be found. Several candidates were tried out during 1951, but none were successful, and in 1952 Mr. Jaffrey was reluctantly trying to run Royal singlehanded. He stated that without much trouble he had found several men qualified to run the nonproduction end of the business. He had not, however, been able to find anyone who substituted for Mr. Brighty in other respects. "Mr. Brighty and I were opposites in the way we worked, and I guess we just balanced out," said Mr. Jaffrey. "When the two of us got done talking about a move and agreed on going ahead, it was a good thing to do. Also, he handled the wives of several former company owners who still own a substantial part of Royal stock. They just about drive me batty; in fact, I had a minor heart attack two weeks ago after a battle with one of them."

In the Royal case, as in others where two men were closely associated in top management, certain working relationships and patterns of operation developed which helped to make management effective. When one of the partners stepped out of the picture, the remaining one was in a position to furnish the requisite short-run leadership without creating major changes for the firm. For the longer run the survivor had to decide whether he wished to manage the company alone, taking on increased responsibility and work. It will be found that in many instances, especially where the manager is elderly, the wisdom of depending on this alternative will be questionable.

If the partnership arrangement is to be rebuilt, the job of finding a replacement is usually difficult. Mr. Jaffrey's experience points up this problem. Mr. Jaffrey thought his task was primarily to find a man who had the requisite technical knowledge and work experience to act as office and sales manager. He gave less consideration to the need for choosing someone who could work with him as a member of the management team, someone who would bring to the partnership those particular administrative skills needed to make it function. We suspect that Mr. Jaffrey's experience is a common one. In trying to find a replacement, he looked first at such easily defined requirements as competence in accounting and finance, and only then at the less easily recognizable or measurable administrative skills which had to be included in the partnership to make it work successfully.

Where a partnership runs a small corporation, the managers usually describe their job by breaking it down in terms of operating functions, such as: "He handles sales; I handle the factory"; or "He handles finances, and I sell." Some managers, however, characterized their working arrangement in terms emphasizing complementary administrative skills and operating patterns, such as: "He gets the ideas; I can get things done"; "I am the spender, my partner holds me back"; "I am the inside man; he handles all the outside Rotary Club work"; and "He keeps the place boiling; I keep the people from quitting." An infinite number and variety of these administrative combinations appear possible in the small busi-

ness partnership, and we suspect also in larger firms where a dual management presides. Where a partnership is viewed as more than a breakdown of operating functions, and recognition is also given to the combinations of administrative skills present, progress is more easily made toward working out the company's succession problem. If, as was the case at Royal, the replacement is picked on the basis of technical skills alone, then complications result.

Some Things To Be Watched

Steps taken to provide for interim management can do much to lessen the possible adverse effects of a change in small company management. Such action, however, is no substitute for management's continuing attention to the problem of providing for future leadership. Some managers, after working out an arrangement for a backstop, consider their succession problems solved. Such was the case in Mr. Dowd's experience with the Blackhawk Company.

Mr. Dowd had taken over the management of his father-in-law's company under unfavorable conditions. The older gentleman had died unexpectedly in 1932, at a time when company finances were precarious. He had so dominated the firm that department heads were not accustomed to make their own decisions and usually brought their problems to the president's desk.

The next 10 years were rigorous ones for John Dowd; he reorganized the Blackhawk Company singlehanded. By 1942 company affairs had been straightened out, and Mr. Dowd began to discuss various ways to prevent a repetition of the 1932 succession difficulty. His program was to make Mr. Bennett, his shop superintendent, general manager of Blackhawk and to give him primary responsibility for all "inside operations." Mr. Dowd was to concentrate on selling and "general work." The change was put into effect by a formal announcement to all employees and by personal conferences between Mr. Dowd and the department managers. Mr. Dowd believed that by making Bennett his second-in-command, he could furnish Blackhawk with adequate succession insurance.

In 1949 Mr. Dowd had a nervous breakdown and was forced to retire. Despite his preparations for such a contingency, satisfactory replacement leadership had not been developed. Although Mr. Dowd had previously announced his intention of dividing operations between Mr. Bennett and himself, in actual practice most of the department heads had continued to follow their former habit of working directly for the president. Furthermore, under the pressure of daily routine, Mr. Dowd had seldom taken time to discuss general company objectives or operations with Mr. Bennett.

When Mr. Bennett took over, he inherited a difficult situation. He was not successful in finding anyone in the sales organization who could head the work of that department; consequently, company salesmen were left to work out their problems as best they could. To add to his burden, the purchasing agent and the treasurer now brought their problems to his desk, despite his insistence that they work out their own solutions.

When Mr. Dowd's son took over the management of Blackhawk 18 months later, sales had dropped, and operating losses had been incurred. Although Mr. Dowd had gone through the motions of setting up stand-by management, he had not followed through with the actions needed to make the arrangement work. He had not taken time to develop Mr. Bennett, nor had he tried to re-educate other company officers so that they might eventually be able to stand on their own feet. Mr. Dowd had failed to develop a strong management organization to support Mr. Bennett's interim administration.

The experience of the Brown Leather Goods Company of Rhode Island illustrates another "common garden variety" problem encountered by small firms working with an interim management setup. Mr. Brown, president and owner of the firm, had discussed his impending retirement and his plans for the future management of his company with the president of a local bank. It was Mr. Brown's hope that his son, a junior in college, would eventually succeed him, but he realized that young Ralph would first need years of experience and training. As a result of these discussions, Mr. Brown

brought Mr. Harkness into the firm as executive vice president and general manager. Mr. Harkness had formerly operated his own leather goods firm, had retired, and then decided to get back into the leather business. He signed a contract stating that he would manage the Brown Company for a five-year period at a fixed salary plus a percentage of profits.

From the point of view of operating results, the arrangement proved to be very successful. Mr. Harkness collaborated with Mr. Brown in running the manufacturing and sales departments, and he personally handled all the hide-buying activities, a key field for the company and one in which Mr. Harkness was highly skilled.

Two years later Mr. Brown died, and Mr. Harkness took over complete supervision of the company. Before his father's death, young Ralph had entered the business, working first in the tannery and later spending a period of several months in each department of the company. Upon the completion of this preliminary phase of training, Ralph was given a desk in Mr. Harkness' office so that he could observe and learn more about company operations.

When Mr. Harkness' contract expired, Ralph Brown did not feel ready to take over as manager, and the agreement was extended for another two years. At the end of this period, although Ralph was still uncertain as to his ability to run the company, Mr. Harkness' health did not permit his continuance as manager, and Ralph was made head of the concern.

The results of Ralph's administration were not good. In his first year the Brown Company lost $120,000, and unprofitable operations were continuing into his second year of leadership. His father's banker friend had grave doubts as to the adequacy of Ralph's preparation for his job of heading the Brown Company.

Mr. Brown, Sr., had selected his interim replacement primarily on the basis of operating abilities. Mr. Harkness was a capable leather man, and his skillful buying of hides had been largely responsible for the excellent profits of the Brown Company under his leadership. He did not, however, have the ability to bring along other men so that they were capable

of carrying heavier management responsibilities. When a small business manager selects his interim replacement on the basis of operating skills and ignores his qualifications for "bringing younger management along," he does not face up to, but rather postpones, the longer-run problem of maintaining continuity of management in his company.

The Valley Paper Company case illustrates another difficulty experienced by some small firms in working with an interim management arrangement. In this company, as in several others covered by this study, a second-in-command had been selected to assure continuity of management, but both the manager and his replacement became incapacitated within a relatively short period of time. In the case of the Valley Company the results were costly.

For over 30 years Mr. Sample had been the principal executive officer of the Valley Paper Company. Some years before his death he made Mr. Jessamin, a long-time associate in the company, executive vice president and gave him 10% of the company's stock. His stated objective was to make sure the company would have capable management in the event of his death. Mr. Sample died in 1946, and 14 months later Mr. Jessamin passed away, too. The loss of two managers within a period of months was, of course, a severe blow, and there did not appear to be any other member of Valley management capable of taking over. At that time, Mr. Greenleaf, the company's sales manager, told both the family and the bank that he was "the man" to run Valley, but both parties thought he overvalued his own abilities. Mr. Greenleaf, to add to Valley's difficulties, left the company when he was not given the presidency. It was some months before an experienced outsider could be attracted to Valley, and the price paid for his services was a heavy one, in terms of both salary and stock options.

Provision for interim management can be a useful approach for the small businessman, but it does not automatically take care of the problem. In the Blackhawk case, Mr. Dowd set up the formal arrangements for a second-in-command but did not follow through to make him function effectively. In the Brown Company situation, Mr. Brown put in an interim

representative who was a good operator but who did not have the ability to bring along the future company president. In the Valley Paper Company, the loss of two managers within a short period negated company efforts to insure continuity of management. Interim management as an approach to succession will be more effective if the small businessman appreciates its weaknesses as well as its strengths.

Summary

In this chapter we have examined the experiences of various small companies in working with an interim management arrangement. This approach to the problem of succession is a popular one. It enables the small businessman to provide his firm with stand-by protection against the loss of top management, yet it does not demand that either the manager or his interim successor withdraw from close contact with day-to-day operations. An interim management setup has also been used very successfully to bridge a gap between retiring and younger management.

The small businessman may limit the long-run ability of his firm to survive if, after making arrangements for stand-by leadership, he fails to take an interest in developing his entire management group. Over the long pull, the best way to insure that leadership will be available when needed is to create a strong basic management group from which a successor may be chosen.

CHAPTER V

Outside Counsel and Assistance

The likelihood that management will recognize and maintain an active interest in the problem of succession is substantially increased in those smaller companies in which the manager uses outside counsel and assistance. Such counsel, whether it is a formally constituted board of directors or a more informal arrangement, can help the small businessman with many of his problems.[1] It is especially useful in relation to succession, for without guidance and advice from individuals who are not a part of his daily operating team, the small businessman typically relegates this problem to the category of "things to be done next week."

This chapter will discuss four related questions: Why is the use of outside counsel of special importance to a small businessman in dealing with succession? What sources of outside counsel are available? What services can outside counsel perform in helping small firms deal with management succession? What opportunities exist for the business community to aid its smaller members by opening up additional sources of such assistance?

The Importance of Outside Counsel

"Who will run this company if something happens to me?" This is a difficult and troublesome question for the small business manager. As indicated in Chapter III, he faces critical limitations in dealing with the problem. One of his important competitive strengths is his ability to supply singlehanded much of the supervision know-how and technical skills necessary to run his company. This strength be-

[1]For a discussion of the role and importance of boards of directors in large companies, see Melvin T. Copeland and Andrew R. Towl, *The Board of Directors and Business Management* (Boston, Harvard Business School, Division of Research, 1947.)

comes a weakness so far as succession is concerned. There is but a small management group from which a successor can be chosen. Moreover, with limited management resources the small businessman is forced to concentrate on immediate operating problems, while little or no attention is given to problems of long-run importance. This condition, plus the fact that the manager's primary ability does not lie in the area of developing new leaders, limits the number of small businessmen who can be "self-starters" with regard to providing for management succession.

Where these conditions obtain, outside counsel can be of great value to the small businessman. The outsider who is not involved in the company's day-to-day activity can look ahead to the problems of the future. Because his perspective is not limited to the daily operating situation, the outsider can perform yeoman service in directing the attention of the small businessman to the question and needs of successor leadership.

Even more important, the outside counselor can bring to the problem the continuing interest which is essential to its solution. Too many businessmen are like Mr. Bauer in the Universal Clock case, discussed previously. Mr. Bauer stated that on several occasions he had talked about the need of doing something about a successor, but the idea always managed to get lost in the next day's working schedule. A continuing source of inquiry and suggestion might have stimulated his interest to the point where action would have been taken.

There is another reason why outside help is useful in persuading management to see and act on the problem of succession. Only the outsider can be regarded as a disinterested participator in company affairs. Hence it is easier for him than for anyone else to emphasize a problem which is likely to be accompanied by high feeling and internal politics. Mr. Davis, the sales manager of the Morris Home Appliance Company, expressed this clearly, saying: "There are five of us in management here, and we are all interested in Mr. Ellwood's doing something about succession. If he doesn't and has a stroke some morning, our chances of having a continuing job are lessened. But who takes the initiative in telling the

old man that he had better get moving? You know he's almost 70. I think he would regard me with some suspicion if I kept after him to do something. Wouldn't he wonder if I was out after the job myself? It would be a break for the Morris Company if we had someone not in our immediate group who knew the business and could push Mr. Ellwood's interest in this matter. He would have the advantage of not having a personal axe to grind."

Finally, outside counsel is of special importance to a small company because it provides a way to acquaint one manager with the experiences of others who have met and dealt with the problem of succession. The small business manager usually has only limited experience with the difficulties of working out a transition from old to new top management. Succession is an infrequent event, so the manager has few, if any, chances to observe it in his own concern. Usually he knows little about how other companies have handled the problem. Faced with these conditions, some small businessmen have used outside counselors as a source of information on what other small firms have done to provide for management continuity.

A case example is the Technical Glass Company. Owned and managed by Mr. Chapman, the concern manufactured laboratory glass items which were distributed through wholesale houses to medical and research organizations. Mr. Chapman had often discussed his company's operations with Mr. Davis, president of one of the wholesale supply houses which carried Technical products. Mr. Davis ran a very successful company and was on the boards of several small and medium-size companies. He had also been instrumental in working out succession plans in his own concern.

The strains of managing Technical Glass for many years, plus some immediate health problems, prompted Mr. Chapman's interest in what he might do to prepare his company for a change in top management. Mr. Davis was able to provide him with the succession experiences of his own company, as well as those of other firms with which he was connected. The "lessons" learned from these firms helped Technical Glass avoid difficulties which it might otherwise have en-

countered. Thus Mr. Chapman's efforts to work out succession plans were rewarding.

What Are the Possible Sources of Outside Help?

Where small concerns have availed themselves of outside counsel, two primary sources of help were employed: formal boards of directors and less formal advisory relationships with friends or business associates.

The many uses to which an active board of directors may be put in a small business have been outlined by Myles L. Mace in his study, *The Board of Directors in Small Corporations.*[1] In that report attention is directed to the role which active boards can play in assuring continuity of management. "Perhaps one of the most important single contributions which an active board of directors can make in a small corporation is the provision for an adequate successor to the existing chief operating executive. The often misleading and hazardous assumption that the president will live for years and years has destroyed many enterprises which otherwise might have been continuous and stable income producers for the family of the owners."[2]

Active boards of directors offer great potentialities, but to date these have been realized only on a very limited scale. Most small businesses work with dummy boards which do little beyond meeting the statutory requirements of the state. In the atypical situations where the small businessman has utilized an active board as a source of outside counsel, effective results have often been achieved. The experiences of these firms give promise of what can be done through the medium of an active board of directors.

In the usual small company, however, the board of directors is not used constructively. In some such cases small businessmen develop outside contacts for management counsel on an informal basis, utilizing a variety of sources, such as bankers, trust officers, underwriters, and public accountants. These arrangements usually arise out of a long-run business rela-

[1]Boston, Harvard Business School, Division of Research, 1948.
[2]Ibid., p. 27.

tionship. In one case, for example, the company's banker over a period of years became the manager's advisor on problems concerning many departments other than finance. In another situation a small company's public accountant developed a sense for over-all company problems and became for most purposes a one-man advisory counsel for the manager of the firm. These two cases are representative of many others.

Informal counseling arrangements appeal to the small company manager for several reasons. It is the *manager* who has personally taken the lead in developing *his own* source of help. He is asking for suggestions from someone with whom he has had business relationships over a period of years and for whom he has considerable respect. *He* retains full measure of independence in either accepting or rejecting the suggestions made, thus avoiding the fear that "someone will be trying to tell me how to run my business." It is quite possible that these advantages could also be realized through the development of active boards of directors, but it is difficult to persuade the small business manager to use this source of aid. Few small businessmen have more than a shadowy idea of what an active board can do, of where outside directors can be obtained, or of how they might work with such a group. This lack of information, coupled with some suspicion that an active board would try to run the company, explains in part why many small firms have used informal outside counseling arrangements instead of working boards of directors.

But informal advisory arrangements have real limitations in regard to helping with the problem of succession. The outsider's advice and counsel are commonly given only on questions raised by the manager. If the outsider is aware of other important management problems, he may well be reluctant to bring them up. In such a case, succession, with all its troublesome ramifications, may go unmentioned.

"I know there is a problem of succession at the Sidwell Company," said Mr. Thomas, an officer in a large eastern bank. "Old Joseph Talbot is not in good health, and he is assuming that young Joe can take over after a little more

seasoning. That may be the case, but the other company officers don't agree. They describe him as an overgrown college boy; nice, but not very smart. Two of the vice presidents have told me they are going to quit if the old man puts his son in as president. They are good men, too, and have been the backbone of the company's success during the last 10 years when Talbot, Sr., hasn't been around very much. While I have raised the question of succession with him, I haven't pushed hard. I've got enough headaches without going out looking for another family battle."

Mr. Thomas said that his reluctance to "go looking" for additional problems was fortified by his recent experience as a member of the board of a small Jersey City firm. "When I joined the board of that company, I knew we would have a problem of succession coming up. All the board members had an obligation to make sure that the outfit got over the hurdle, and we came through. But it took many hours of time over a four-year period, and there were plenty of headaches before the new president had things well in hand. I'll handle those problems when they are a part of my personal responsibility, but I don't go out of my way to try and find them."

Whatever the source, whether board member, attorney, or accountant, outside counsel can be of great help to small firms in dealing with the problem of succession. An increase in the number of small companies using active boards of directors is probably a long-term future development. In the meantime, they can profitably use less formal arrangements to secure outside advice and assistance.

Looking Ahead and Preparing for Succession

How can outside counsel help the small company on the problem of succession? One useful service which it can perform is to help the manager look ahead at his company's needs and to prepare for the transition period. The experiences of the Sloane Corporation, the Manley Jewelry Co., and the J. T. Moore firm are illustrative. The first two companies had active boards of directors; in the third the trust officer of a local bank was the source of outside counsel.

After the death of his partner, Mr. Tompkins became president and general manager of the Sloane Corporation. Sloane operations had never been very profitable, and Mr. Tompkins began a program of vigorous action to improve the company's position. To help in this reorganization, Mr. Tompkins asked a number of local businessmen to serve on his board of directors. One of the men invited to serve was Mr. Cunningham, chairman of the board of a large Chicago manufacturing firm. Mr. Tompkins had worked with Mr. Cunningham on several trade association committees and had been impressed with his abilities.

Before he accepted Mr. Tompkins' invitation, Mr. Cunningham spent some time at Sloane, meeting the officers and asking questions about company operations and policies. He concluded that the Sloane Corporation was shaping up to be a well-managed company with a substantial potential. Furthermore, he was impressed with Mr. Tompkins' future plans and his willingness to take on "the big boys" in the farm equipment field. In accepting the position of chairman of the Sloane board, Mr. Cunningham believed one of his primary functions would be to help develop a stronger over-all management organization for Sloane. Mr. Tompkins was the "mainspring" of the company, while his department heads played limited roles.

Time confirmed Mr. Cunningham's original size-up. The Sloane Corporation's "management eggs" were "all in one basket," and Mr. Cunningham believed the loss of Mr. Tompkins would create a difficult situation. He did not think the problem was immediate, however, since Mr. Tompkins was only 52, but he did raise the question of succession at varying times with other board members and with Mr. Tompkins.

In 1942 the Sloane Corporation embarked upon a program of expansion, adding a quite different line of products, which required new manufacturing facilities and the development of a different sales organization. During this critical period Mr. Cunningham worked very closely with Mr. Tompkins on all aspects of the change. He encouraged the bringing in of a new sales manager and the adding of two understudies in the production area, where the superintendent was in his late

sixties. Mr. Cunningham also asked Mr. Archer, the treasurer, to work up additional reports, of both a financial and operating character, for Mr. Tompkins.

During succeeding years the board of directors under Mr. Cunningham continued to work closely with the Sloane management group. When problems of special interest to a particular department were discussed, Mr. Cunningham invited the officers involved to meet with the board. In Mr. Cunningham's opinion, the steps taken to strengthen Sloane management and to increase Mr. Tompkins' reliance on his other executives had at least partially removed the "Achilles heel" of the company, an absence of successor management.

The experience of the Manley Jewelry Co. provides another example of outside board members helping management to recognize and do something about management succession. Shortly before World War II, Mr. Donald Frank was asked to join the board of the 80-year-old company. At that time the firm was being run by two old gentlemen who had directed company affairs for over 40 years. The two partners had also asked their attorney and a retired professional man to be the fourth and fifth members of the board.

It soon became evident to the three new directors that their major contribution to the Manley firm would be in helping the older men to step out and new management to take over the leadership of the company. Manley operations were profitable, and the firm had an excellent trade reputation. Over a period of time, therefore, Mr. Frank and the other two outside directors often raised the question of future leadership with the partners. The older men, however, did not completely share the directors' immediate concern over the problems which their retirement would create. One of them told Mr. Frank that his grandfather had still been active, in every sense of the word, on his eighty-sixth birthday.

The illness of one partner some time later, plus a request from a former partner's son that he be admitted to the top management of Manley, gave the directors an opportunity to call for further action. At their urging, a firm of consultants was brought in to survey company operations and organization. Using the consultants' report as a basis for discussion,

the directors again raised with each partner the question of providing for continuity of management at Manley. After these discussions the partners agreed to make one of the other company officers executive vice president. As second-in-command, he took over the operations formerly supervised by the partner who was in poor health. The board, furthermore, set up retirement goals for the officers, which they hoped would provide some rough guidance as to when future replacements would be needed. Mr. Frank stated that the arrangement had been a fortunate one, for two years later both partners were dead.

In contrast to the Sloane and Manley situations, the J. T. Moore Company did not have an active board of directors. The steps taken by Mr. J. T. Moore II to insure continuity of management for his concern resulted primarily from the advice of Mr. James A. Barker, trust officer of a local bank.

Mr. Barker first came to know the Moore concern because his bank was trustee for a minority stock interest in the company. Originally he had thought that the Moore holdings should be sold, but upon later investigation he concluded that the firm represented a good bet for the future. The J. T. Moore Company manufactured standard metal products which were not subject to major fluctuations in demand. Operations had been on a profitable basis since the company's incorporation.

Gradually the two men developed a successful working relationship. At the outset Mr. Moore talked only infrequently with Mr. Barker and then generally about financial matters. As time went on, Mr. Moore began to ask the trust officer's opinion on a wide variety of questions. He further asked Mr. Barker to sit in on company operating meetings so that he might have a better opportunity to see what additional questions should be considered by management.

Mr. Barker stated that one of his major contributions had been to help strengthen the Moore management group so that a successor for J. T. would be ready when needed. He encouraged Mr. Moore to turn over some of his "day-to-day work" to other company officers in order that he might work more closely with the sales manager in reorganizing that de-

partment. Mr. Barker succeeded in convincing the Moore management of the need for a "figure man" in the company and helped to find a capable treasurer-comptroller. He also urged Mr. Moore to take a month's vacation, both winter and summer. During these vacation periods the Moore officer group was put on its own to run the company. Mr. Barker said these "dry runs" had helped him to spot the strengths and weaknesses of individual executives.

Mr. Barker was not sure who the next president of the J. T. Moore Company would be, but he was reasonably certain that a successor could be found within the management group. He believed that Mr. Moore was well aware of the problem of succession and had taken action to provide for the firm's future management requirements.

Outside counsel helped substantially in getting the Sloane, Manley, and Moore Companies to prepare for management succession. This was done by highlighting the question, "Who takes over?", by maintaining a continuing interest in this question, and by helping the manager to build a strong organization from which a successor might be selected.

Selecting the New President

The selection of a new chief executive is an important step for any company to take. It is of particular and critical importance in a small business where so much responsibility rests on the shoulders of one man. In some small businesses the successor is chosen by the outgoing president. In other cases the trustees or executors of the estate, often greatly influenced by the wishes of the incumbent management group, make the choice. Frequently selection is hurried in order to avoid a prolonged break in the continuity of top management. In any event, the selection process is subject to pressures which tend to restrict the field of candidates from which the successor is selected.

Outside counsel can help a small company by participating in the selection of the new chief executive. The presence of outside counsel does not automatically insure that a capable successor will be chosen. It can, however, bring to bear on

the problem the judgment of a disinterested individual or board having substantial knowledge of company operations and personnel. A number of cases were observed in which outside counsel helped a company to choose and promote the candidate whose abilities seemed best fitted to match the requirements of the top position. One such case was the Quality Preserve Company.

When William Lee Biggers took over this company, operations were at a standstill and bankruptcy was imminent. The Quality Company, a manufacturer of jams and jellies, was a publicly owned firm located in upstate New York. Under Mr. Biggers' forceful and colorful leadership, company operations were consistently at a high profit level, and the firm was widely recognized as a leader among small preserve companies.

Mr. Biggers was described by an associate as living the way he drove his car—at 90 miles an hour. "No matter how late Bill was out the previous night, and he loved a good party, he would be at his desk the next morning at seven o'clock. He worked at a steady pace until noon, ate breakfast, and then went off for the afternoon to play golf." This somewhat unconventional working pattern was matched by an ability to keep things stirred up around the company. On one occasion Mr. Biggers bought a small grocery chain for Quality; another time he got the company into several new preserving lines without any advance notice to his organization.

In the late 1930's Mr. Biggers began gradually to change the composition of the Quality board of directors and to increase its opportunities for consideration and review of company affairs. He brought on the board two professional men who represented sizable blocks of stock, plus his attorney and two other experienced executives. Under the leadership of the attorney, the group began to receive detailed reports on company operations and finances. After the board had become familiar with Quality's business and personnel, they asked Mr. Biggers to consider a number of questions which they thought were important. Among these was the question of what steps Quality might take to be sure that replacement of top management would be available when needed.

During the following years Mr. Biggers and the board periodically discussed various candidates for the general managership, their capabilities and limitations, and what might be done to develop them further. The board urged, and Mr. Biggers accepted, an arrangement whereby he would gradually turn over more and more of his day-to-day work to two senior vice presidents.

Mr. Biggers retired in 1946 and was made chairman of the board. At that time the board selected one of the senior vice presidents as the new president. An active board of directors, composed primarily of outside personnel, was able to help the Quality Preserve Company achieve continuity of capable top management. It successfully balanced the utilization of an able, dynamic, and volatile Mr. Biggers with the necessity of developing successor managerial talents within the company. Furthermore, in its selection of the new manager, the board's judgment was based on a long-time knowledge of what skills were needed to run the company and what skills were available within the management group.

Where satisfactory successor management cannot be found within a small company, outside counsel can help to locate possible replacements in other firms. The Rydal Furnace Company's experience illustrates this fact. When Ezra Bradford died, a 30-year era in the history of Rydal Furnace was completed. Mr. Bradford had successfully directed company affairs since the death of the former founder-president. Mr. Bradford's leadership had been characterized by personal domination of all company activities. Although there were other officers, Mr. Bradford gave them only minor responsibilities. The company board served only to meet the legal requirements of the state.

Some years before his death Mr. Bradford met Mr. Furlong, trust officer for the Prudence Trust Company, at a church meeting. This initial meeting between the two men was followed by other conferences, and after many discussions Mr. Furlong's financial institution was designated trustee for the Bradford majority stockholdings in the Rydal Company.

To become better acquainted with company affairs, Mr. Furlong made it a point to visit the Rydal factory whenever the

opportunity arose. These visits, plus an occasional discussion with Mr. Bradford, enabled Mr. Furlong to gain some understanding of the "furnace game" and of the problems of competing in it. Although it was evident to him that Mr. Bradford ran the company as a "one-man show," there was little Mr. Furlong believed could be done to change the situation. Mr. Bradford was an elderly gentleman, set in his ways, who attributed his success in life to his background, healthy living, and a daily reading of the Bible and the financial pages of a New York City newspaper. He did not encourage suggestions from either his employees or from Mr. Furlong as to how his company should be run.

When Mr. Bradford died, Mr. Furlong made arrangements for temporary management until he could review the situation. Mr. Bradford's administration, while earning excellent dollar profits, had not produced an organization from which successor management could be selected. Subsequently, Mr. Furlong brought into the Rydal Company as general manager an executive from a local manufacturing firm. This arrangement proved satisfactory for both parties. Mr. Furlong, through his wide acquaintance with executives in other small and medium-size concerns in the Philadelphia area, was able to provide an executive recruitment service for the Rydal Company.

Outside counsel can make another important contribution to the process of selecting a small company manager. In the small firm, and probably in many large ones, the retiring president plays an important part in picking out his successor. In doing so, the small businessman often seems to assume that the way he came up through the company is the best way for any future leader to come up. Also he seems to feel that whatever area he specializes in—whether it be sales, production, engineering, or something else—is the area in which his successor should be skilled. Such an attitude is understandable but not necessarily appropriate in every case. Under these circumstances outside counsel can make an especially useful contribution by insuring that management's choice of a successor is not automatically accepted but rather is subject to close scrutiny and careful review.

Where outside counsel has been used successfully, the retiring manager participates in the selection of his replacement; but his judgment is supplemented by and is subject to the review of individuals with different backgrounds and points of view. In the Kinard and Central Cement Companies, outside counsel prevented the retiring manager from individually selecting a replacement who did not appear to be the best candidate available.

John Corey, president and plant manager of Kinard for many years, had originally come to work for the firm as a foreman. His advancement was rapid—general foreman, plant manager, and then president. Corey's ability to design and produce low-volume machined parts, plus his acquaintance with officials of several automobile parts manufacturers, had been in large measure responsible for the early success of the Kinard Company.

During World War II the company expanded rapidly, growing from a small shop to a size where it employed several hundred men and was owned by over 300 stockholders. In the postwar period the company diversified its production, making new items and supplying new industries. This development resulted largely from the efforts of Mr. Backstrom, chairman of the Kinard board and also president of a local underwriting concern.

In 1946 Mr. Corey, in a step designed to simplify his approaching retirement, turned over his responsibilities as plant manager to Mr. Foster, his assistant. At that time he suggested informally to Mr. Backstrom that Foster would be an excellent president for the Kinard Company. Mr. Corey believed Mr. Foster's years of experience in plant management qualified him for the top position; the fact that Foster could "tear down" and rebuild any machine in the plant was a source of great satisfaction to his superior. Mr. Corey attributed his own success at Kinard to the fact that he did not sit in his office but was out in the plant making sure the machinists were on the job. "Foster works the same way I do," he said.

When Mr. Corey retired in 1950 the board selected Mr. Hayes, another officer of Kinard, as the new president. Mr.

Backstrom stated that Mr. Hayes had been chosen on the basis of his all-around ability to manage company affairs. He did not believe that Mr. Foster's background or abilities fitted him for the top manager's position. "The Kinard Company's operations have changed a good bit since Mr. Corey started in running the business. We are larger, have a different product mix, and supply many markets rather than one. The company is at a point where the manager has to do more than personally supervise production operations. Some time spent in the office talking over problems of interest with other officers of the company could be a useful activity."

In the Kinard case, an active board of directors helped make certain that a capable successor to Mr. Corey was selected. Without the review which this group provided, Mr. Corey would have chosen his own successor, limiting the candidates to men with backgrounds in production. Under the leadership of Mr. Backstrom, Mr. Corey's recommendations were subject to study by a group which represented varying points of view. Furthermore, the board from its outside vantage point was able to note the effect of the company's growth on its organization and operations and to sense what these changes meant in terms of the top-management job. The result was the selection of Mr. Hayes rather than Mr. Foster as the new president.

The Central Cement Company provides another example. Here again outside review of a president's suggestions prevented an ineffective candidate from becoming head of a firm. Mr. Tenzell, a trust officer of the Mid-State Bank and Trust Company, had been familiar with the personnel and operations of the Central Company since the early 1930's. The Mid-State Bank, representing an estate with a substantial minority holding of Central Cement stock, was one of approximately 30 shareholders in that firm.

Mr. Neal had been made president and sales manager of the Central Company in 1932. He had succeeded in keeping the company solvent during those difficult days, and from 1936 on he had maintained company operations at a profitable level. Some years before the outbreak of World War II Mr. Neal began to discuss with Mr. Tenzell the need for develop-

ing a new management team within the Central firm. At that time, all the company's management group were in the same age bracket, with the exception of the treasurer, Mr. Hill, who was in his forties, and young Dexter Neal, who was assistant sales manager for the state of Michigan.

Mr. Neal suggested that young Dexter be made sales manager of the firm immediately. The increased responsibilities, said Mr. Neal, would help prepare his son for an eventual promotion to the presidency. Mr. Tenzell was not at all certain of young Dexter's business abilities, but in the interest of keeping Mr. Neal with the company, he agreed to Dexter's promotion. Dexter remained sales manager until he was called up for military service.

After a three-year tour of duty as an Air Force sergeant, Dexter resumed his supervision of company sales. Mr. Neal, Sr., was no longer in good health and could not continue his former close supervision of Dexter's activity. One of the latter's first moves on his own was to get the company into a ready-mix cement operation. After a year of unprofitable operations, the department was sold at a loss of about $85,000. Mr. Neal, Sr., however, was still convinced of Dexter's ability and again approached Mr. Tenzell with the recommendation that his son be made president. Mr. Tenzell refused this request.

Mr. Tenzell was able to persuade Mr. Neal, after many conversations, that it would not benefit either the company or Dexter to put him in as president. With the help of a trade association, Mr. Tenzell succeeded in finding a man who was willing to give up his position as district manager of a larger cement company and come to Central Cement as executive vice president. This arrangement was successfully completed, and Mr. Neal retired within a short period of time.

Outside counsel can make a worth-while contribution to a small business by guaranteeing that the retiring manager does not make an unreviewed selection of his successor. It is not speaking critically of either Mr. Corey or Mr. Neal to say that their capabilities in operating a company were not matched by equal abilities in selecting replacement management. In the Kinard case, Mr. Corey could not "step back" to see the

major changes which growth had brought to the company and the effects of those changes on the top manager's job. In the Central Cement situation, Mr. Neal's understandable wish to have his son succeed him made for difficulty. In both cases the experienced judgment of persons outside of management, yet familiar with the company, helped in the selection of capable successors.

Helping the New President to Take Over

The contribution which outside counsel can make is not limited to encouraging the small businessman to prepare for succession and to giving him help in selecting his successor. In some companies studied, outside counsel made a further contribution by working closely with the newly designated manager until he had time to become acquainted with his new responsibilities. The result was to make the period of transition less difficult for both the company and the new manager. The experiences of the B. M. Pray Company and the Newport Plating Company are illustrative.

When Mr. Selma, president and general manager of the B. M. Pray Company, died, the directors of the firm elected Mr. Cannon as his successor. Mr. Cannon was chosen in preference to other company officers primarily because his candidacy was supported by Mr. Fallon, a member of the board for many years. Mr. Fallon, a trust officer for the Southside Trust Company, represented an estate with a minority stock holding in the Pray Company. Although two other directors represented interests owning a majority of the Pray stock, Mr. Fallon enjoyed a position of respect and informal leadership on the Pray board. As a director of several small concerns, he brought to the Pray Company recognized business judgment as well as experience with the problem of management succession in other small firms.

Mr. Fallon first met Mr. Cannon when the latter was made assistant to the president during Mr. Selma's last years. Mr. Fallon believed then that with additional seasoning Mr. Cannon would become an excellent president. In the last few years before Mr. Selma's death the two men worked to-

gether on a number of board projects, and these experiences confirmed Mr. Fallon's original appraisal. Mr. Fallon made a practice of spending some time each month discussing the company with the younger man. He continued to do this, but on a more formal basis, even after Mr. Cannon became president. He also arranged to spend a day before each directors' meeting at the Pray Company. These meetings as well as frequent conversations enabled Mr. Fallon to give Mr. Cannon considerable help in working into his new position.

Since some of the Pray directors were not completely convinced of Mr. Cannon's abilities, Mr. Fallon urged him to spend some time in working out his relations with the board. One of his first suggestions was to advise Mr. Cannon to prepare an agendum for each directors' meeting. Mr. Cannon had originally let the board meetings run on a "spur-of-the-moment" basis with the result that little was accomplished. Mr. Fallon further suggested that Mr. Cannon talk informally with individual directors about major proposals before bringing them before the board in a formal meeting.

Mr. Fallon believed that these two moves played some part in Mr. Cannon's subsequent acceptance by the Pray board of directors. He said that the preparation of an agendum had been a simple but effective way of forcing Mr. Cannon to distinguish between questions which he should settle himself and more important ones requiring board review.

Mr. Fallon was also helpful in assisting Mr. Cannon to improve on his day-to-day methods of work. On one of his visits to the Pray Company, Mr. Fallon noted that the shopmen were constantly asking Mr. Cannon all sorts of "10-cent" questions, such as what to do with a loose chuck or complaining about the quality of the strip steel the company was buying. Mr. Fallon used this as an opportunity to ask Mr. Cannon to consider what questions should be coming to him and which ones the foreman should answer. As an eventual result of these discussions, Mr. Cannon did a great deal of work with his foreman group. In addition, he secured a younger man to handle some of the minor details which still had to be processed.

During Mr. Cannon's first years in office the Pray Company expanded both its sales and its production facilities. At that time Mr. Fallon observed that Mr. Cannon was bringing up his proposals for capital expenditures in piecemeal fashion. At Mr. Fallon's suggestion, Mr. Cannon began to prepare in rough outline form a budget of anticipated "large money" needs for the next several years. He also worked out some longer-run proposals for a gradual expansion of the Pray Company's development and quality control sections.

Over the next several years Mr. Fallon spent less and less time working with the Pray Company. He was available when Mr. Cannon wanted help on a certain problem, but he believed that the new president had successfully adjusted to the responsibilities of his new role. Mr. Fallon's counsel and interest had been a factor of some importance in helping Mr. Cannon to work through his initial, uncertain years as president of a small concern.

The Newport Plating Company case provides another example of the contribution which outside counsel can make in helping a new general manager. The company had begun operations on a very limited scale in 1929. Mr. Tocci and a partner borrowed money, bought second-hand equipment, installed it in a building which had been vacant for many years, and Newport Plating was in business. The company survived the death of Mr. Tocci's partner and the depression of the 1930's and gradually expanded. By 1937 Mr. Tocci and the six other investors in the concern began to realize substantial profits.

It was Mr. Tocci's fervent hope that his son Vincent would one day succeed him as general manager of the Newport Company. While in grade and high school Vincent had worked during his vacations at the Newport plant. After finishing college he served four years in the Navy and then attended a graduate school of business administration, returning to Newport Plating immediately after completing this program. At that time Mr. Tocci worked out a schedule whereby he would retire in about seven years. He believed that these years would give him sufficient time to train his son to become

general manager and also to complete a major company expansion and rehabilitation program.

Mr. Tocci's postwar program called for the abandonment of the company's old facilities and the building of a new and larger plant with modern plating equipment. To finance the expansion he sold additional stock to a small group of private investors, including a substantial amount to his friend, Mr. Verdi, a local business leader. Mr. Tocci also hired a production manager who had the necessary technical skills to handle the new equipment. In addition, he asked Mr. Verdi and two other local businessmen to join his board of directors.

Restrictions on construction and the difficulties experienced in buying new equipment delayed the program for three years. When Newport's expansion was about half completed, Mr. Tocci died unexpectedly. Mr. Verdi, as a major stockholder in the company, stepped into the situation immediately. Although the Newport board had never operated formally, Mr. Verdi and Mr. Tocci had often discussed company operations and future management plans. Consequently, Mr. Verdi knew that Vincent had been chosen by his father to be the next manager. Furthermore, Mr. Verdi had watched Vincent's progress over a period of several years and was convinced that he had executive abilities.

Despite some objections from other investors, Mr. Verdi carried through the plan to put Vincent in as general manager. He agreed to keep in close touch with Newport operations and to provide whatever assistance he could to Vincent. One of Mr. Verdi's first steps was to help Vincent get the new plant completed and equipped. Through Mr. Verdi's business connections, Vincent was able to line up a supplier of electric motors, which were in short supply. Mr. Verdi also helped to locate metals suppliers who could furnish the type and quantity of raw materials required for the new plating process. As a result, the company commenced production at its new plant some weeks before the date planned.

More important, Mr. Verdi worked with Vincent Tocci on critical operating problems. Each fortnight the two men met and discussed the current operating situation, and in addition, lined up plans for the next few weeks. At one such meet-

ing Mr. Verdi and Vincent worked out a system for handling materials in the new plant and discussed ways of using older employees whose manual skills were no longer needed in the new mechanized operations. Mr. Verdi made it a practice never to raise questions or make suggestions about a problem until Vincent asked for help.

From Vincent's point of view, Mr. Verdi made another important contribution. He was able to act as a buffer in keeping stockholders from harassing the new manager with questions and proposed limitations before Vincent had a chance to learn his job. At the end of the first six months of young Tocci's administration, company profits had dropped somewhat from the previous period. Mr. Verdi's support was instrumental in convincing the other stockholders not to put in an outside "watchdog" to check more closely on company operations.

At the end of 18 months Mr. Verdi did not believe that sufficient time had elapsed to reveal whether Vincent could run the Newport Company or not. There were indications, however, that he had great potentialities. His relationships with the older company officers were excellent, and the new plant was brought into operation with a minimum of delay and cost. Vincent was so successful in booking orders that company sales reached a new peak, and profits improved considerably at the same time. Mr. Verdi felt that it was no longer necessary for him to work directly with young Mr. Tocci, and their fortnightly meetings were replaced by a monthly report of company activities and problems which Vincent submitted to Mr. Verdi. The latter sometimes raised questions about items mentioned in these reports but seldom found it necessary to ask for a change in strategy or objectives.

Outside counsel helped the new managers of the Pray and Newport Companies to assume their roles of leadership and to establish new relationships with members of each company's board. Perhaps more important, outside counsel helped these new executives develop the point of view and management skills necessary for their positions. Mr. Fallon's experience in working with Mr. Cannon is illustrative. When the latter

became president of the Pray Company, his new job did not require any major change in his physical surroundings; he moved into a new office less than 20 feet away from his old desk. Mr. Fallon helped him to realize, however, that while the change in physical setup was not great, the new position did require significant changes in his point of view and way of working. As an assistant, Mr. Cannon had usually been available to help with any question; regardless of its importance or unimportance he would personally dig out the answer. Mr. Fallon helped him to realize the importance of concentrating on major problems and of getting help for less important matters. As a subordinate company officer, Mr. Cannon had submitted requests for capital outlays with limited concern as to what other departments needed or what the over-all company financial situation was like. Mr. Fallon encouraged Mr. Cannon to see that in his new position he had to balance the company's limited financial resources against the requests of various department officers.

In similar fashion, Mr. Verdi helped Vincent Tocci balance the desire of his production chief for long, economical runs against the desire of the sales people to maintain good customer relations with all accounts. An ability to look at problems from an over-all company point of view is not automatically acquired when a man is formally given the title of general manager. In many situations it is a skill which is developed only over a long period of time and experience. In the cases of Mr. Cannon and young Mr. Tocci, outside counsel helped both men in the development of this outlook.

The presence of outside counsel does not guarantee the success of a new manager in taking over a small company. It can mean, however, that help is available at a critical point in the manager's development and in the company's history.

Some Opportunities for Action

The value of outside counsel to the small businessman in dealing with management succession has been demonstrated. This means that the business community is faced with the challenge of providing adequate sources of such counsel. The

social benefits that might be realized from meeting this challenge are great. If existing sources of counsel were expanded, or if new sources were developed, more small businessmen could receive assistance in dealing with the succession problem in their own companies. Moreover, such a development could also hold significant implications for our entire business society. Lack of management continuity has been one factor contributing to a lack of stability among small firms with consequent detrimental effects to the owner-manager, employee, customer, and supplier. The provision of outside counsel for an increasing number of small firms could help to stabilize this segment of our business economy.

Financial institutions in general, and their trust officers in particular, have been the leaders in providing sources of outside counsel. The patient continuing interest of a trust officer provides the impetus for succession action in many small firms. With his involvement in estate planning, he has a natural interest in encouraging the small businessman to prepare for management succession. At the same time, the trust officer often develops an advisory relationship with the small businessman in regard to company problems of a more general nature. The service of professional trust officers to the small business community has not been well publicized, but it has been of real importance.

Among the trust companies and other financial institutions observed, those which were most successful in working with small business had several characteristics in common. First, the organization had given special attention to the problems of small companies. Sometimes this meant that separate "family business departments" had been set up at the trust company. More frequently it meant only that several of the institution's officers, who also handled other types of work, had achieved some degree of specialization in working with small company problems. Second, there was a willingness on the part of the trust officer to spend enough time with the small company managers to have a real knowledge of the specific situation in that concern. The bank or trust company was most helpful on succession when it had been working with the company for a long time before the need for suc-

cessor management arose. Finally, the financial institutions most successful in working with small concerns had avoided giving the appearance of overwhelming the small businessman with a barrage of experts. As one small businessman commented: "The —— Trust Company is always advertising that it will provide a team of specialists to work with me on long-range plans for my estate, which, by the way, is my company. Hell's Bells! If they brought that group down here, there would be more bankers than managers around. That's not for me."

These approaches seem useful in helping the small businessman to overcome his usual reluctance toward taking help from sources outside his company. They permit him to remain independent in making his own decisions and yet provide for help from someone long familiar with him and his concern. Such an arrangement can be a profitable one from the point of view of both the trust company and the small businessman.

The record of accomplishment to date points up the need of extending trust company work with small businesses. Before such an expansion can be realized, however, a substantial amount of educational work will have to be done by the financial community in explaining the services which it can perform and, more important, the manner in which such help is provided.

A second major source of help for the small business community in dealing with succession would be an increase in the use of active boards of directors. The effective utilization of such boards would provide an opportunity for the small businessman to secure outside assistance, not only on the question of succession but also on over-all company matters.

As indicated previously, many obstacles have limited small company use of active boards. Several developments must take place before this situation is measurably changed. Small businessmen must be educated to the possibilities of assistance from boards with outside members. In that area schools of business administration, national associations of business organizations, and business leaders from both large and small companies can perform a useful educational service. In addi-

tion, there is the perennial question of getting capable men to accept such an assignment. Some of the appeals which a large company can offer to a prospective director are absent in the small company situation. Finally, and most difficult, is the question of how to get the manager to use his board effectively once it is established. Obtaining the assistance of outside board members is not enough. The latter must learn to work together, and the manager must learn how to work with the group. This task is a difficult one.

These barriers to the increased use of small company boards are not insurmountable. Given time and persistent encouragement, more small companies will make use of active boards. Such a development would be a step forward in helping small business managers insure continuity of management for their firms.

CHAPTER VI

Limiting the Problems for Successor Management

THE FIRST months, and even years, of leadership may well be a critical period for a new manager. During that time he must learn a new job, win the respect and confidence of his subordinates, and, most important, keep the company going. This is a hard assignment, necessitating an adjustment which is at best difficult and in some cases impossible for a man to make.

The outgoing manager of a small concern can make this transition period less difficult by limiting, in so far as possible, the problems which will confront his successor. We observed several ways in which this could be done. In the first place, the departing executive can make a determined effort to clean up any "dirty work" before he goes, so as to avoid leaving his successor a heritage of unsolved problems. A second approach is to make sure that he leaves behind a job which is "fillable" and not so unique that possible replacements will be extremely difficult to find. A final approach is to work out arrangements for succession of ownership, where necessary, so that the difficulties which often accompany such a transfer will not harass successor management.

We will develop these approaches immediately and in the following chapter consider another major way in which the retiring small businessman can smooth the path of his successor. In addition to limiting the problems which the next manager will encounter, the outgoing small businessman can make a positive contribution by working toward the development of a strong basic management group from which his successor can be selected.

It is not easy for a small businessman to try to limit the problems facing his successor. Such a task involves working on problems which perhaps could be avoided and left for someone else to handle. It means hard work and complica-

tions just when a man is getting ready to retire. Perhaps it even calls for unpleasant decisions that may incur the wrath of life-long business associates and friends. In spite of all this, we found some managers, endowed with courage as well as ability, who helped their companies by refusing to pass on the burden of old problems to new managements.

Cleaning Up the "Dirty Work"

If a small businessman leaves a messy situation to complicate the initial period of the successor's administration, he places the new man in a difficult spot. Such was the case in the Seaboard Stamping Company. Mr. Harding, a relative of the company founder, had managed Seaboard over a 20-year period. With his family grown up and his outside personal investments sufficient to provide a modest income, Mr. Harding decided to retire gradually from Seaboard and lead a less vigorous life. In the next several years he looked around for a possible replacement among his organization and other branches of the family still owning some stock in the concern. Mr. Harding finally decided that his nephew, Donald Olson, might make a capable family manager for the firm. Donald had had several years of business experience before World War II and had come back to work for the Seaboard Company shortly after his discharge from the service.

When Donald Olson took over as general manager of Seaboard, the company's position was far from secure. Although the over-all market for large stampings was excellent, Seaboard's position and reputation had been deteriorating, and customer complaints on quality increased substantially during the postwar period. Customers continued to use Seaboard services when large stamping facilities were scarce, but as stamping capacity opened up Seaboard lost several large and long-standing accounts. The Seaboard shop superintendent blamed much of the trouble with quality on the old and inadequate machines which the company still used. In contrast, Seaboard's principal competitors had re-equipped their factories and improved both quality and delivery time. Another problem resulted from the location of the Seaboard plant. Situated on the outskirts of town, it had formerly en-

joyed a relatively isolated position, and the noise of the large presses had not constituted a major difficulty. The postwar housing boom, however, saw the development of housing projects in the area surrounding the Seaboard plant. As a result of town and individual pressure, the owners of the plant gave notice to Seaboard that its lease, expiring in two years, would not be renewed. The new manager was also faced with a difficult personnel argument between two of his key men, the estimator and the shop superintendent. Mr. Harding had kept the dispute semi-controlled but had not wished to take the steps necessary to straighten out the difficulties. Several weeks after young Olson became manager, the shop superintendent resigned.

Mr. Harding's failure to deal with the problems of equipment, relocation, and personnel meant that his successor was confronted with extraordinary difficulties during his early months in office. Although Donald Olson believed that the company could overcome its troubles, he stated that the next several years would be precarious ones.

Mr. Harding had profitably managed the Seaboard Company for many years, but as his planned retirement approached, he just "slowed up." He was reluctant to expand operations even when customers guaranteed full use of the capacity. The three other Seaboard executives were in their sixties and seemed willing to go along with his point of view. Donald Olson commented that during the last years of his uncle's administration the Seaboard management group seemed to spend most of its time pointing out why the government, taxes, and their competitive position prevented them from making needed improvements. "They never got around to actually getting out and doing something about anything. Except when the shop man and estimator were fighting, they just took it easy."

A contrasting situation is found in the experience of the Construction Material Company, a manufacturer of wooden products for the building industry. Mr. Nance had been associated with the management of this firm since the early 1930's and had been president since 1939. Shortly after World War II Mr. Nance discussed with his organization and several

large stockholders his plans for retiring within a few years. Part of his program involved a determined effort to clear up some potential trouble spots which he believed might bother his successor. One of his first moves was to strengthen his aging management team. With the support of key stockholders, Mr. Nance worked out an over-all retirement schedule for several officers who were in their late sixties. In addition, he developed individual retirement plans for each executive and made arrangements for each one to work part time during the period when his replacement was being readied. Mr. Nance also hired from outside concerns several younger men to be placed in junior positions where company operations needed reinforcements.

Furthermore, Mr. Nance pushed through a proposal to modernize and re-equip the company's main manufacturing operation. This required planning a new layout, buying the necessary equipment, and negotiating a substantial bank loan. A repayment schedule was established, which the company believed it could handle even if sales dropped substantially. Mr. Nance completed this work in 1949. His final step was to begin building up the company's board of directors. He succeeded in obtaining the services of two local bank officers and a very successful small businessman from a near-by community, as well as legal counsel representing two large blocks of company stock. Mr. Nance was making final plans for his retirment in 1952. As a result of these efforts, he would hand to his successor a company free of major unsolved problems.

The case of the New Process Manufacturing Company provides a similar example. Some years before his planned retirement Mr. Gardner, the founder, suffered a heart attack which forcibly reminded him that he had only a few years left to manage actively the company which he had founded. At that time he, his brother Adolph, and three other officers ran the firm. Mr. Gardner's personal contribution to the success of the New Process Company had been in the area of its over-all direction. Brother Adolph had contributed the idea for the firm's original product, and he had developed an important sales connection with a large mail-order house.

Mr. Gardner, in the remaining years before his retirement, spent a considerable amount of time on areas in which he believed his company was particularly vulnerable. One step which he took was to diversify both the product line and customer list. Before this action, over 70% of the company's operations had been concentrated on one type of product, which was sold to one large mail-order house. In addition, Mr. Gardner worked closely with both his production and sales managers in making the necessary organizational and personnel changes so that these departments could handle the two new major product lines. As the company's growth in sales had not been matched by an expansion of its management organization, Mr. Gardner brought in Mr. Bok, a middle-aged executive with over 15 years of business experience, whom he established as a second-in-command. Finally, Mr. Gardner talked in some detail with several of the other major stockholders about whom his successor might be. While he did not seek to name a specific individual, he felt very strongly that his brother should continue in his present assignment and not be made the next president. Adolph's main ability was in the line of selling rather than in work of a general administrative nature. In making up his estate arrangements, Mr. Gardner stipulated that his sons-in-law should not be brought into the company management.

In both the Construction Material and New Process Companies the retiring executives performed a very useful service for their successors. In clearing up questions of both a policy and an operating nature and in straightening out potentially troublesome personnel problems, both Mr. Gardner and Mr. Nance made the jobs of their successors less difficult. Cleaning up the dirty work and helping the new administration to start out with a relatively clean slate are important aids in accomplishing a successful change in small company management.

Making the Top Job "Fillable"

In some small companies the retiring executive can limit the problems of the transition period by making the top job easier to fill. A departing manager can make a contribution

if he is willing to think through and reappraise just what his job is and how it might be changed so as to make it less complex. If the job can be simplified, this broadens the field of candidates from which a replacement can be drawn and makes the role of leadership less exacting.

One such case example involves the Farmers Serum Company, a manufacturer of veterinary supplies. Under the direction of its founder, Mr. Siple, the company's record was impressive, especially after 1936, when sales and profits expanded rapidly. Mr. Siple displayed real ingenuity in keeping the company going during the depression and growing during the 1940's and early 1950's. At one critical period, in an effort to finance operations and increase sales, he sold stock directly to midwestern veterinarians and then encouraged them to help increase their dividends by buying all their veterinary needs from his firm. Mr. Siple's position as president involved general administration of his company plus supervision of its development, control, and field testing work. Much of Farmers' success resulted from several new products which the research department had developed.

Looking ahead to his retirement, Mr. Siple had sought possible candidates for his position. He was unsuccessful in this search and soon concluded that it would be very difficult to find a replacement with his own combination of administrative and research skills. Moreover, his firm had grown to the point where he wanted and could afford to expand his research activities. Several years before his retirement, therefore, Mr. Siple hired Dr. Beacon, a professor of veterinary science from a state agricultural school, to head up the research activities of the Farmers Serum Company. This move gave Mr. Siple more time to concentrate on other phases of company operation in the final years before his retirement. In his opinion, there were several candidates within the company who could take over the top management job as long as they did not have to handle the problem of supervising the research department. Dr. Beacon had Mr. Siple's former product development responsibilities well in hand, and it was not expected that the new president would have any unusual problems in that area.

Mr. Siple minimized the likelihood of a real succession problem by rearranging his own job and reassigning part of it to a new technical man. The candidates who could carry the administrative load were more numerous than those with combined scientific and administrative skills.

Mr. Willman's experience with the Croft Special Machinery Company provides another illustration of a small company leader who reorganized his own job so that a successor could more readily step into his place. Mr. Willman and Mr. Croft had founded their company at the turn of the century. Mr. Croft, whose outstanding skills were in finance, and Mr. Willman, a designer and engineer, ran the company as a corporate partnership until Mr. Croft's death in 1917; from then until his retirement Mr. Willman managed company affairs.

Mr. Willman's administration was pretty much a one-man show. Though Croft had grown from a one-room shop to a company of over 200 employees with annual sales of several million dollars, Mr. Willman continued to run things much as he always had. He distrusted accountants "because they never smiled" and consequently developed few financial and cost controls. His method of control was very personal; for example, one of his practices was to walk through the shop and offices twice each day, making sure that he at least said "hello" to every one of his employees. From the way they replied, their voices, and expressions, Mr. Willman, according to his associates, could determine whether everything was satisfactory or whether some problem was disturbing them.

Some years before his enforced retirement, Mr. Willman had a series of discussions with his lawyer, a close personal friend, about the future of his company and what he might do to make sure that it continued in operation after his death. At the time of these conversations, Mr. Willman did not plan to retire within the near future but wanted to work as long as possible. He recognized, however, that at his age events might force him to step down at any time.

Mr. Willman's discussions with his counselor resulted in his taking action to limit the problems which both men foresaw would result from his future withdrawal from manage-

ment. Mr. Willman did not propose to change the working pattern he had established over a 50-year period, but he did agree to make other changes. At the suggestion of company officers, a treasurer-accountant was brought in to develop a system of operating and financial reports. Mr. Willman began to strengthen the engineering staff of the company in order that the design group might stand on its own feet. He also purchased several designs for semistandard production machines so that the firm would not be completely dependent on specialty design work.

When Mr. Willman died, his successor took over the company with a minimum of difficulty. Under the influence of outside counsel, Mr. Willman had been able to look ahead and take some steps to make his job one which could be more easily filled. The candidates inside or outside the company who could have run it as Mr. Willman did were few in number. In fact, there was some evidence to indicate that even he could not have continued to run the firm much longer without giving more attention to its management problems. To manage Croft Machinery as Mr. Willman had, the top executive would have to be both a designer and a businessman. It would have been a difficult job to find a replacement with that particular combination of skills.

While a retiring president can to some extent determine the nature of his successor's job, he can do so in only a limited way. The direction of a small company is characteristically "personal," and the manner in which the successor will run the firm and the particular jobs which he will take on depend primarily on his personality, interests, and skills. In both of the previously mentioned cases, however, the retiring manager was able to take some action which made his job an easier one to fill. In the Farmers Company this was done by separating the technical aspects from the over-all job of running the company. In the Croft Company Mr. Willman's approach was somewhat more complex. Largely through the continuing interest of outside counsel, he made several changes which lessened somewhat the difficulties of his successor's job. By setting up a system of reports and contracts, he made it easier for a man without his intimate familiarity with com-

pany affairs to step into his job and have some idea of what was going on. In addition, by strengthening the engineering resources of his company along the line of his specialty, he made it less essential that the next president also be a genius at designing special machinery.

Efforts such as these tend to ease the difficulties of management transition for the small firm. If the small businessman approaching retirement is willing to reappraise his position with the aim of making it easier to fill, succession will present fewer problems.

Providing for Succession of Ownership

Most small companies are closely controlled from an ownership point of view; many are owner-managed. The problems of succession of ownership typically arise therefore when management retires or dies. When succession of both management and ownership is the product of last-minute decisions, trouble frequently results. If outgoing management will take constructive action to prepare for succession of ownership, it can prevent one more problem from arising at a time when the small firm must meet the strains of a management changeover.

While such action is unusual, some small businessmen have taken steps to work out their problems of ownership and management succession, with beneficial results to both their personal estates and their firms. In the following case histories we will detail the experiences of a number of firms, owner-managed as well as closely owned corporations, which have done something about succession of ownership. For purposes of contrast we will include the Eversharp Cutter Company, where effective provision for succession of ownership was not worked out.

The Dirkson Soap Company was founded in Moline, Illinois, to serve a specialty industrial soap market. Company operations remained at a stable level until Mr. John Dirkson took over from his father in 1937. He embarked on a policy of vigorous expansion, based on the improved detergents which were then beginning to appear on the market.

In 1944 John Dirkson began to talk with family members of his board and with a Chicago trust officer about the long-run future of the Dirkson Company, the concentration of family investment in one enterprise, and the question of who would run the company after he retired. Mr. Dirkson hoped that eventually his two sons would assume top management responsibilities in the firm, but it would be many years before their interest or potentiality could be accurately appraised. In the interim, other management arrangements would have to be made. In cooperation with a trust officer, Mr. Dirkson began to work out a program in preparation for his retirement. One step taken was to strengthen the management resources of the firm.

Mr. Dirkson also made plans for dealing with his family's complete ownership of the company. In cooperation with a Chicago firm of underwriters, a substantial percentage of Dirkson stock was sold to a number of investors. Concurrently the Dirkson board of directors was enlarged to include a representative of the underwriting firm and two experienced outside directors. Mr. Dirkson also made arrangements for dividing his stock among his wife and sons in the event of his death. A trustee familiar with the company was selected to vote the sons' stock until they were mature and responsible enough to vote it themselves. As a final step, Mr. Dirkson made arrangements for certain officers of the company to have a right to buy treasury stock under certain prescribed conditions.

Mr. Dirkson stated that he had entertained grave doubts about disposing of major stock interests in a company which had figured so importantly in his family history and in the current lives of his family. He believed, however, that it would be a wise move; the subsequent experience of the firm justified this prediction.

We believe that Mr. Dirkson showed great foresight in working out plans to separate in some degree the ownership and management of his firm. In so doing, he helped to minimize his company's problems during its later period of management transition. Separation of management and ownership in most small companies is but a matter of time,

given the impetus of our tax structure plus the inevitable splintering of family ownership as stock is divided among children and grandchildren. Recognizing this fact, Mr. Dirkson turned this process, with its promise of difficulty, into a move which helped to strengthen both his company and his personal fortune. By planning for succession of ownership, he made his personal estate and family financial position more secure. Some of the family's resources were taken out of the closed corporation and shifted into a more diversified investment portfolio.

This move also helped Mr. Dirkson to improve his company's management picture. At the time of his death or retirement, an active board of directors could select successor management on the basis of the best available candidate without serious restriction as to what individual owned what percentage of company stock. Moreover, Mr. Dirkson made certain that his stock would go to his sons, who he hoped would eventually come into the business. His sons' stockholdings did not assure them of a position in the future management of the company. "If they earn that right, however," Mr. Dirkson said, "then their share ownership will provide them with an incentive to keep this concern prosperous."

In the Kaufman Shoe Company case, Mr. Kaufman provided for management succession by employing a second-in-command as an interim manager. When Mr. Kaufman retired, the second-in-command was to run the company until the directors could evaluate the potential management ability of various younger members of the company, including Mr. Kaufman's son.

With regard to succession of ownership, Mr. Kaufman worked out an arrangement whereby his son was to receive a minority stock interest upon his father's death. The balance of the stock was to be set aside until the trustees, who included some of the directors plus legal counsel, could decide whether young Bob Kaufman had the "stuff" to run the company. If that was not the case, efforts would be made to find someone with requisite skills, and the stock would be sold to him.

When Mr. Kaufman died, his proposal was put into effect. After a number of years of watching and close checking up,

the trustees decided that young Kaufman did have the abilities to lead the company, and arrangements were made to transfer majority stock ownership to him.

The Dirkson and Kaufman Companies belonged to owner-managers who wanted their firms to survive and who therefore worked out arrangements to provide for succession of ownership. In so doing, they hoped to maintain personal and family financial interests and to make certain that successor management would not be selected automatically on the basis of stock ownership, without regard for the caliber of man needed to run the company. In the Kaufman case owner-management was eventually maintained. In the Dirkson case there appeared to be some question as to whether the sons should ever take over the top management of the company. By providing for succession of ownership, Mr. Dirkson set up safeguards which would help his directors select the most capable future management, without being harassed by family members who, qualified or not, might assume they should take over the top positions. In both cases, it should be noted, outside counsel and assistance were an important factor in the setup.

The experience of the Eversharp Cutter Company provides a direct contrast to the two previous case situations. Mr. Brennan, the company's owner-manager, had taken some measures to prepare for succession of management before his death but had done little with regard to succession of ownership. As a result of Mr. Brennan's inaction, his successor faced added difficulties in an already complicated situation.

When Mr. Brennan died unexpectedly, his heirs appointed the company's sales manager, Mr. Adams, as general manager. In addition to the normal run of company problems, Mr. Adams was immediately confronted with a demand by Mr. Brennan's widow that her son be promoted to the position of plant manager. Mr. Adams believed that the son had future promise but that his youth and lack of experience did not fit him for the position immediately. He consequently turned down the request, earning therewith the enmity of Mrs. Brennan. The latter's next move was to insist that her son be made a member of the company board of directors. She also

took frequent occasion to remind the officers of the firm that some day her son would be president and that, in effect, they should "play ball" with him. To complicate the situation further, she demanded that Mr. Adams "keep in his place" a distant male relative who worked as a minor supervisor in the company's manufacturing department.

At the time of Mr. Brennan's death the financial situation of Eversharp Cutter was not good, and this fact created problems with regard to Mrs. Brennan's personal income. She had inherited the majority stock interest in the company and little else. Mr. Adams was therefore faced with the necessity of paying out dividends to support her, despite the company's cash difficulties. He had thought of advising Mrs. Brennan to sell some of her Eversharp stock but decided the idea was impractical. Even if she was willing to dispose of some stock, he thought the market for such securities would be very weak because of the company's basic position and because new and untried management was at the helm.

Mr. Brennan's failure to make any plans for succession of ownership meant that voting control of his company was left in the hands of his wife, whose primary assets were not in the area of financial understanding. Mr. Adams remarked that it took the patience of Job to explain to her the difference between working capital and cash available for dividends. If Mr. Brennan had given some attention to succession of ownership and had set up professional trust counsel to assist in the voting of company stock, Mr. Adams' problems would have been minimized.

The Harite, Raskob, and Bartrum Companies were all small closed corporations which worked out succession of ownership arrangements. The Harite Corporation was owned in part by a small group of outside investors, with a majority of stock owned by members of management. Mr. Dempsey, Harite's founder and first manager, set up a precedent which was still being followed by the third generation of managers. Under this arrangement a retiring officer of the company was given the choice of converting his common stock into cumulative preferred or selling it back to the company, to be resold to members of the active management

group. In carrying on with this tradition, Mr. Gold, the retiring president of Harite, said that the advantages of such a plan were twofold. It gave the management group a chance to select its own leader without having that choice dictated by questions of majority ownership. It also kept ownership substantially among the officers of the company, which, he believed, served as an incentive for better performance on their parts.

The experience of the Raskob Company shows how another closed corporation worked out succession of ownership plans. A majority of Raskob stock was owned by members of management. Ten years before an officer expected to retire, he began to sell his stock back to the company. Each year he relinquished one tenth of his holdings, so that by retirement time he had withdrawn all his investment in the company. Management reported that this plan, which had been in effect for many years, had proved successful in helping to maintain the liquidity of retiring officers' estates. It had also made possible the choice of new management on the basis of merit, while at the same time assuring that management and ownership would not be divorced.

The experience of the Bartrum Company provides a final example. The three managers of the Bartrum Company were approaching retirement. Their stated objective in working out succession plans was to maintain the continued existence of their company and also to improve their own estate liquidity. In cooperation with a local underwriting firm, they encouraged the development of an over-the-counter market for shares in the Bartrum Company and disposed of some of their stock in that manner. They also worked out with company bankers an arrangement which provided for loans to the younger executives of the company, enabling them to buy company stock. The president of the company said that from an estate point of view, this plan had permitted him to diversify his personal investments. From a succession of management point of view, it had created an active interest in over-all company problems among the younger executives of the firm. "When it was their money at stake, they began to watch us like hawks and started coming to board meetings.

One suggestion which they made was to urge us to get an outside businessman to serve as our board chairman. We followed their suggestion."

Summary

Where outgoing managers have taken action to limit, so far as possible, problems confronting their successors, they have helped to insure their firms' chances for continuing in business. By clearing up long-run policy problems, as well as operating and personnel questions, the retiring manager avoids leaving his successor with a stockpile of "dirty work." Conversely, if he is able to pass on a company in excellent health, he goes even further in minimizing the possible difficulties of successor management. Secondly, by rearranging his work so as to make his position less specialized or not unique, the retiring manager broadens the field of candidates from which replacements can be chosen, and he also lessens their difficulties in taking over. Finally, by working out questions of ownership, the departing executive can be of assistance to his successor.

There are good reasons why the small businessman does not do so much about management succession as he might. It is expecting a great deal of a retiring executive to ask him to clean up the "dirty work" and to change his way of running the company. Furthermore, if he is an owner-manager, his strong interest in keeping all the stock within the family and in making sure that his sons or heirs have a place in top management is understandable. Yet to the degree that the small businessman is willing to modify some of these demands, his company has a better chance for survival. When a small businessman recognizes that he does not have to maintain complete stock ownership in order to control a company, he may well take steps to broaden its ownership base, with subsequent advantage to both the company and his personal estate. When he is willing to let others share in ownership, he helps to secure and maintain the continuing interest of an outside group of managers. It is a rare family that can supply all the management talents required to run a firm. Separation of

management and ownership is the usual outcome as family generations come and go. By looking ahead to this eventuality and planning for it, the family may actively prolong its financial interest in and control over the company.

CHAPTER VII

Developing Top Management for Small Business

In order to improve company stability, businessmen have long believed in setting up financial reserves "for contingencies." Recently, some large concerns have created still another kind of reserve—one of management personnel. Increasing amounts of money and attention have been devoted by big business to executive training programs. Small business has not shared this interest, even though it needs management reserves just as much as its large competitors. A big company is fortified by its relatively strong organization, established trade position, and financial resources, whereas in a small concern these strengths are often lacking, and a few individuals share all the burdens of leadership.

It is true that major limitations restrict what a small firm can do about developing management. Some of the factors which add to the difficulty of the job include the small size of the management group, the frequently observed domination of the firm by one man, the lack of adequate capital resources, and methods of operating geared only to keeping the company alive in the face of strong competitive pressures.

Despite these limitations, some small businessmen do take steps to make sure that there will be future management at hand in the company. As one small businessman commented: "Before a man can head up either a large or a small company, he has to develop certain basic skills. The critical difference is that the small businessman goes over a different obstacle course in developing these talents than does the large company executive." The small company manager who is successful in training men for executive positions usually has some idea as to what his own "obstacle course" is like. If he is aware of the need for management reserves, knows what is feasible in his own particular situation, and is alert to the

possibility of developing his subordinates through his day-to-day work with them, there is a good chance that managers will "grow" in his concern.

There is a need for directing the small businessman's attention to the task of bringing along new management. Without his continuing interest, management development is left to chance. Under such circumstances the top manager seems to assume that his skills will be automatically transferred by some process of osmosis to his successor as well as to other members of the organization. As the case histories in Chapter III illustrate, such a theory often leads to unsatisfactory results.

There is a critical relationship between a small company's attempts to develop managers and its abilities to provide for management succession. In most small concerns a new leader comes from within the organization and is brought along by the manager himself. This may well cast the latter in the unfamiliar and perhaps even uncomfortable role of "teacher." Unless he encourages and helps members of his organization to develop their talents, the firm is left in an unsatisfactory position as far as management succession is concerned.

What can small businessmen do to develop capable successors? In some companies the manager concentrates all his training efforts on one person who becomes, in effect, a "crown prince," destined to inherit the top position. In other companies the emphasis is on strengthening the over-all management group from which a successor can be selected. In either sort of situation we observed several commonplace approaches to the problem which have been helpful where they have been tried. Executive development in the small company involves using day-to-day problems and activities as a means of training men to assume more responsible positions. Instead of running the company by himself, the top manager tries to increase the participation of others; he also recognizes the importance of management development and is willing to devote considerable time and effort to it. Finally, some small company managers follow a conscious program of putting young executives into positions where they will have a

chance to "run their own shows," and develop the over-all abilities and point of view needed to run a company.

Developing a "Crown Prince"

In some small companies the executive development program centers around one younger man who has been chosen to succeed the present manager. Such was the case in the Frick Seating Company. When Mr. Frick passed away in 1941, the firm continued to operate under the leadership of Mr. Billings, who had been a protégé of Mr. Frick for many years.

As a "crown prince," Mr. Billings had received much attention and direction from Mr. Frick. The latter had made certain, for example, that Mr. Billings, even as a young man, attended all important company meetings. Early in his career he was made sales manager, taking over that job from Mr. Frick. This advancement enabled him to work closely with Mr. Frick and to become well acquainted with many of the company's large and important accounts. Some years before Mr. Frick's death, Mr. Billings was designated as general manager of the company, working with him on all aspects of company operation. Mr. Frick's efforts to bring along a crown prince were successful, and when he passed away, Mr. Billings took over leadership of the company. Operations continued without major difficulty.

Mr. Billings followed a policy similar to Mr. Frick's. Some years after taking over, he selected Mr. Pearson, a young man in his early thirties, as his successor. He informed his organization that in the event of his sudden death or retirement, Mr. Pearson would become president of the company. As Mr. Billings' crown prince, Mr. Pearson was given an office near his and was immediately placed in charge of several minor departments. Mr. Billings spent a considerable amount of time working directly with Mr. Pearson and made certain that he dealt with a wide range of problems. His progress was rapid, and within a short time he was made executive vice president of the firm.

The Frick Seating Company's approach to developing management was to put "all its eggs in one basket" and select

a younger man to be brought along as the company's future leader. This arrangement proved to be particularly helpful for this firm, both when Mr. Frick died and upon the unexpected passing of Mr. Billings in 1950. At that time Mr. Pearson was placed in office, and the second top management vacancy in a 10-year period was successfully filled.

Having a crown prince is one useful way of helping to make certain that a successor will be ready to take over when the top executive steps out. We observed the successful use of this device in a variety of situations. As contrasted to choosing a second-in-command, who is typically an older man, selecting a crown prince gives management a chance to train a younger person who will be capable of providing long-run leadership for the company. It also brings a measure of certainty into a highly uncertain situation. Once the crown prince has been picked out, the small company executive can concentrate his efforts on that man, giving him every possible opportunity to learn more about operations and encouraging his managerial growth.

The concentration of training efforts on a crown prince is a useful approach but one which also has important limitations. A case in point is the situation encountered by Mr. Alexander, president and general manager of the Southern Textile Machine Company.

Shortly before World War II Mr. Alexander began to worry about what would happen to his company, and thus to his personal estate, in view of the fact that no provision had yet been made for successor management. After reviewing the situation, he decided that he would have to go outside the company for a replacement. He did not believe that the company's executive group, either on an ability basis or from a time-age point of view, was capable of taking over by the date he hoped to retire. He concluded, furthermore, that if his replacement were to be trained, that job would fall squarely on his own shoulders.

Mr. Alexander chose as his successor a young engineer who, after graduating from a southern institute of technology, had worked for several years with one of the largest cotton manufacturers in the country. Mr. Graham agreed to join the

company on the understanding that he was to be trained to succeed eventually to the presidency.

Mr. Alexander began by moving Mr. Graham as fast as possible through all the company's operations. He then put him on the road as a sales engineer for several years before recalling him to the home office as an assistant in the production department. At this point Mr. Graham's development program was interruped by a period of Army service. Upon his discharge, he was given an office next to Mr. Alexander's and the title of assistant general manager. In addition to his responsibilities in the production area, he also handled special projects for Mr. Alexander.

This arrangement continued for about two years, at which time Mr. Graham was released from the employ of the Southern Company. Mr. Alexander explained that Mr. Graham had experienced serious difficulties in working with the three older members of his management group. Soon after becoming assistant general manager, Mr. Graham had attempted to make a series of major changes in the production organization. He was generally critical of the manner in which older management ran the company and made recommendations to Mr. Alexander on a score of problems. Many of these suggestions concerned operations outside the production area and did not pertain to matters which Mr. Alexander had asked him to review. Mr. Graham was anxious to bring what he called "scientific management" to the Southern Company, but the results were remarkably unsuccessful.

The Southern Company was in a serious position with regard to management succession as a result of the departure of the crown prince. Mr. Alexander was 65 years old and in poor health. After hiring Mr. Graham he had done little to try to bring along other officers of the company. He did not believe that any member of Southern's present management group was capable of taking over his job. Furthermore, he did not think the company was in a good position at this late date, either financially or opportunitywise, to attract an outside manager.

The causes of Mr. Graham's failure as a crown prince are too complex to be analyzed completely. At least part of his

difficulty arose because he was insensitive to the feelings and opinions of the older men with whom he worked. Mr. Alexander said they gave Mr. Graham little help, and he suspected that they even attempted to sabotage some of Mr. Graham's projects.

Another explanation is found in Mr. Alexander's lack of ability to bring along a successor. His primary interest lay in the area of sales, and he worked mostly on sales engineering problems, spending very little time with Mr. Graham. Mr. Alexander did not anticipate the problems which would confront Mr. Graham in his new position, and once they were apparent, he was not very helpful in working with his successor to solve them. Mr. Alexander seemed to assume that Mr. Graham would automatically be trained if he was given a thorough grounding in the details of company operations and then turned out to work on his own. The results demonstrate the inadequacy of this appraisal. Mr. Alexander, for example, did not assist Mr. Graham in working out his relations with other company officers, nor did he show him how changes in the company production setup might affect other operations. There is more to running a small company than knowing how to make and sell a product, as Mr. Graham discovered to his sorrow.

When a small company manager concentrates his development efforts on a crown prince, he is adopting an approach which has merit, as the Frick case demonstrates, but one which also has some real limitations. Such a policy rests on the assumption that the crown prince is "educatable" and that the management of the company has the time and the ability to bring the younger man along. These circumstances do not always obtain, however. The use of a crown prince has other disadvantages, one of which is to give notice to the entire management group that a long-run successor has been selected. Such a move may well diminish the interest and ambition of those not chosen, thus making it harder to develop a strong over-all supporting team. Furthermore, the other members of management can make things difficult for the crown prince. Through their determined opposition, he may be executed before he even takes office.

Instead of concentrating development efforts on a crown prince, some small company managers try to bring along all their principal subordinates, thus creating a strong over-all organization from which a successor can be selected. Such a practice has much to commend it. It encourages each member of management to develop his capacities as far as he can, thereby collectively strengthening the company. By not designating his successor far in advance of actual retirement, the top manager secures and maintains the interest of all executives in the problem of succession. The members of the organization become participants rather than bystanders in efforts to develop and strengthen company management.

The following case histories provide examples of managers who were capable "developers of men." Some consciously recognized the need for management attention to this area. Others developed people as an unplanned but effective by-product of the way in which they worked with their organizations. In either case, these managers were able to improve the caliber of management in their companies.

Day-to-Day Teaching

Mr. Charles Custance, general manager of the Camfall Lighting Company, had an excellent reputation as a successful small businessman. Under his direction the Camfall Company had held its own during the depression of the 1930's, and in the 1940's and early 1950's it had operated profitably and expanded consistently. In 1951, as part of his expansion program, Mr. Custance obtained a long-term bank loan which would enable his firm to renovate its plant and equipment and to expand facilities by about 25%. The bankers explained that one of the important reasons for their approval of the loan was the fact that Mr. Custance had built up a strong supporting organization. They believed that such an organization assured the successful completion of Camfall's expansion program, and they further believed that, even if Mr. Custance should unexpectedly die or retire, capable successor management would be readily available to direct the firm.

The Camfall Company did not have any formal training program, and management development was incidental to the day-to-day work of the business. Mr. Custance explained his method as follows: "We are a small company, and much of what we do is routine. So, whenever something new comes up or a problem arises which affects a number of spots in the firm, I toss the problem to the boys and see what they can do with it."

Mr. Saxe, an officer of Camfall, described the following incident to show how Mr. Custance worked with his management group: In 1951 Camfall inventories were increasing rapidly at a time when capital was needed to finance expansion of receivables and physical facilities. Mr. Custance asked Mr. Saxe to review this problem with some of the other company officers and to report back to him. As a result, Mr. Saxe, the sales manager, production manager, and chief accountant got together to try to find the trouble.

After some weeks of work the group came up with a plan for reducing inventories while still maintaining efficient production and prompt delivery. When the officers presented their ideas to Mr. Custance, he agreed that their proposals were generally sound but urged them to reappraise one of their major recommendations. Mr. Custance was particularly concerned with the impact of the new procedure on the scheduling and record-keeping work of the company. He later approved a revised plan and suggested that the group take action on its proposal.

Mr. Custance did not make any single individual responsible for putting the plan into effect. "The result was," Mr. Saxe said, "that all of us felt it our personal responsibility to see that the new plan was put into operation and to help make sure that the bugs were worked out. It was a rough several months, but everyone learned a lot. For one thing, all of us got a better picture of how our work affected other departments of the company, and vice versa. It made us even more aware of the company's limited cash resources and what we could do to ease the situation." The new plan succeeded both in easing this situation and in giving the various managers some ideas about an interdepartmental problem.

At another time Mr. Custance discovered that the quality of certain purchased parts was not satisfactory. He was reasonably certain that he knew what the trouble was and could easily have handled the problem personally. Instead, he asked Mr. Ash, his young production superintendent, to work it out with his assistant. In doing this, Mr. Custance was able to give both men some experience in working with a subcontractor. The part was in short supply, and the supplier, because of ceiling prices, was not making what he considered to be a reasonable profit. Although Mr. Custance had to be brought in on some of the arrangements, the basic trouble was ironed out by Ash and his assistant. Mr. Custance believed that the experience had been particularly useful for the two men. "It forced them to get out of their daily routine and to see what was happening at the competitor's plant. They got a chance to see how other companies run and what their problems are."

While Camfall's expansion and renovation program was still in the discussion stage, Mr. Custance asked his executives to help him work out the final plans. This meant that the sales manager had to make an estimate of sales over a five-year period, the treasurer had to figure capital income and outgo, and the production manager and his engineer had to draw up rough layout plans and estimate new equipment requirements. The group jointly drew up a rough prospectus, which Mr. Custance redrafted and submitted to his bank.

Mr. Custance was skillful in sensing the teaching opportunities present in his company's situation. Whenever possible, he encouraged his lieutenants to work on problems and submit proposals to him for review. He could not in all cases wait for the slow results of group action, but when it was possible to do so, he did. Mr. Custance was not only a businessman; he was also a teacher. His classroom was a crowded office in the Camfall Company plant; his classes were small, and his "cases" were directly concerned with the company's daily existence and progress. He was skilled, however, in using these situations as training material to improve the caliber of his assistants.

Changing the Manager's Working Habits

Some small businessmen are willing to modify the way in which they run their companies in an effort to encourage the development of management talent. In so doing, their practice is to turn over some of their own work to either a "crown prince" or a group of subordinates in order to give the younger men a chance to learn. These small businessmen are willing to pay a short-run "gaining experience" cost in the hope of developing, over the long run, a stronger management organization. Such was the case with Mr. Angelo of the Appleton Wood Products Company, and with Mr. Halstead, owner-manager of the Shoe Suppliers Company.

Mr. Angelo founded the Appleton Company to exploit his skills in designing and crafting solid mahogany tables. While the concern had never been exceptionally profitable, it had provided the Angelo family with a comfortable living. Mr. Angelo was proud of his company, and it was his hope that the business might carry on with his son in command. He was also concerned with Appleton's responsibilities to its employees and to the small community in which it was located. There were only two other small firms in the village, and the loss of 60 jobs would have serious local consequences. Mr. Angelo therefore made a conscious effort to develop his son Francis.

In Mr. Angelo's opinion, two of the company's key operations revolved around buying mahogany and designing table styles. These two operations had been Mr. Angelo's personal responsibility ever since the founding of the company. In an effort to bring his son along as rapidly as possible, Mr. Angelo gradually began to turn over more and more of the mahogany-purchasing responsibilities to Francis. Initially he accompanied his father to the Philadelphia market where the actual buying occurred. Later he was put in charge of lumber buying, subject to a rough dollar limitation on the amount of raw material inventory. On one of his first purchasing trips, Francis bought an order of mahogany which later turned out to be unsatisfactory. Mr. Angelo and

Francis talked over the purchase and together worked out some safeguards to avoid a repetition of this mistake.

Mr. Angelo continued to work with Francis on this basis for a period of years. Once he had gained familiarity with the buying side of the business, his father next made him responsible for sales. Finally, more and more of the company's major problems were being handled by Francis.

Mr. Angelo's efforts were successful, and when Francis was made assistant general manager of the company, his operating record was excellent. Mr. Angelo had been willing to give up some of his prerogatives in order that his son might gain the experience of actually running major company activities. Mr. Angelo commented that when he finally decided to turn the management of Appleton over to Francis, he was not completely sure that the latter had the ability to carry through. "But learning goes on just so long, then some day you get thrown in the water and have to swim. Luckily, Francis worked out."

The case of the Shoe Suppliers Company provides a similar illustration. In making plans for management succession, Mr. Halstead gave considerable attention to developing his officer group. He had purchased the Shoe Suppliers Company in the late 1920's and devoted his life to making it an aggressive small manufacturer of shoe findings. As the company expanded, Mr. Halstead brought in a number of younger men who he believed could supply it with continuing effective management. His program involved turning over to his various lieutenants as much responsibility as they could handle. For example, he entrusted a young assistant with all responsibility for sales, an area which he himself had handled for some years. He commented that the move had cost the company some ready business, for the new sales manager had difficulty in selling to one of Shoe Suppliers' major customers. "The cost of the lost sale, however, was small in comparison to the fact that we are training a darn good sales manager." Mr. Halstead encouraged his junior executives to join local and national trade associations so that they might get out and meet other manufacturers. He personally made certain that two of his men were elected officers of such groups.

As Mr. Angelo and Mr. Halstead gave up some of their day-to-day operating responsibilities, they took on other assignments. Mr. Angelo devoted an increasing amount of time to building up a specialty table manufacturing division which supplemented Appleton's regular line. Mr. Halstead bought another very small company which he ran part time as a hobby. Both men were available for consultation on any problems which their associates wanted to raise.

The typical small businessman closely supervises or personally handles the key operations of the company. Under such circumstances, the opportunity for management development is greater if the top manager is willing to change his way of working so as to give junior executives more chance to participate in these activities. It is asking a great deal of the small businessman to suggest that he turn over to others work that he has always done himself. Such a move poses some difficult problems: What do I do if I'm not actually buying or selling? How can I help my assistant to learn this job rapidly? Moreover, it forces the executive to realize that development is expensive. If the trainee doesn't always buy at the best price or sell to all the accounts, it costs the company money. If he ruffles the feelings of older employees and someone quits, the price of developing management becomes even more evident.

Some small businessmen, however, can and do make this adjustment. They are willing to modify long-standing habits so as to place less emphasis on doing things themselves and more emphasis on letting others learn. By such a practice these men encourage the process of management development.

Giving Time and Effort to Management Development

Some small businessmen, recognizing that management development is their personal responsibility, have been willing to give both time and effort to it. Where this factor has been present, the chances for development are greatly improved. The Clay Products Company case provides a sharp contrast to the experiences of many small concerns where any attention given to developing executive resources is an accidental by-product of company operations.

Mr. Jacobson, formerly head of the accounting department, was made president of the Clay Products Company to fill a vacancy created by the unexpected death of the chief executive. "The first few years were rough," said Mr. Jacobson. "I wasn't at all sure I could handle the job, and there wasn't much of an organization around to give me a hand. To further complicate things, the financial people who put me in were anxious to see speedy improvement in the company's poor position. I wouldn't want to go through that struggle again."

His initial difficulties as president made a lasting impression on Mr. Jacobson, and he was determined to spare his successor from similar problems. With the cooperation of his board, Mr. Jacobson studied ways and means to strengthen company management. His first step was to encourage each department head to train an assistant capable of taking over in an emergency. Mr. Jacobson saw to it that his company attracted younger men of ability, and the most promising of these recruits were sent to one of the three sales offices, where the branch manager was especially skilled in bringing people along. After serving an apprenticeship in that branch, the men were farmed out to other company departments. Mr. Jacobson also tried to shift his personnel around whenever funds and opportunities permitted. He had recently moved the head accountant from the office of the treasurer to that of the sales manager in an effort to broaden the accountant's background. In addition, Mr. Jacobson set up a monthly operating meeting which was attended by all his department heads and their assistants. At these meetings the group thrashed out problems of general interest and assigned follow-up responsibilities.

Mr. Jacobson believed that there were a number of strong candidates from among whom the board might choose his successor. This fortunate situation had not been achieved by chance but rather because Mr. Jacobson had been willing to put time and effort into developing the management resources of Clay Products. He tried to make certain that men with ability were coming up in his organization. He furthermore attempted to give these men an opportunity to work in

various company activities and to serve under men who were interested in and capable of teaching them to be better managers. Mr. Jacobson was a "coach" in the best sense of that word. His experience illustrates what can be done by businessmen who are willing to give time and effort to management development.

Despite limitations imposed by size, small firms can do something to develop men for management. Three approaches to this problem were observed in those small firms which were most successful in handling it. First, the top manager of such a firm can sense the teaching opportunities inherent in the day-to-day problems and situations which confront his group. Second, he recognizes that to develop his organization, he may have to change in some measure his own way of running the company. He must be willing to let others handle work that he could do himself, in order that his subordinates may have a better chance of learning about his position and its problems. Finally, he appreciates the fact that development of management is an important responsibility which takes time and effort and is accompanied by problems equal to, if not in excess of, those connected with making a tough sale or getting out a new product.

Giving Subordinates a Chance to Stand on Their Own Feet

A small businessman anxious to develop management talent within his firm can employ the three approaches so far discussed without making really substantial changes in his way of doing business. More drastic steps have been taken by some companies in pursuit of this objective. In some cases small businessmen have set up independent operations within their companies where potential top managers could stand on their own feet and gain experience in handling their own businesses. This often involved major changes in company operations and organization.

A case in point is the Electrical Manufacturing Company, founded by Mr. Henry Karp, to manufacture certain component parts which he had invented. The company grew steadily, gradually concentrating on three product lines—the

original component parts business, electrical subassemblies, and government contract radar work. Each type of product was sold to separate customers. Although all manufacturing operations were conducted in one plant, differences in production requirements necessitated setting up three separate lines with supporting assembly facilities.

Sales grew, and Mr. Karp was confident that they could be expanded still further if additional management could be found. He did not wish to go outside his company for new executives and consequently set up a plan to encourage the development of "home-grown" talent. As part of this plan he decided to split up the company into three separate and almost independent divisions, each with its own manager. This division manager, subject to Mr. Karp's general supervision, was to run his own show. He was to hire and fire, decide what to make and when, and how to price and sell the products. Each division was expected to use central accounting and purchasing facilities. Mr. Karp's stated objective was to encourage the division managers to develop their own methods and skills for running a company.

In reviewing the results for the first several years, Mr. Karp said the plan had been constructive, and he decided to continue it. Two of the division managers were doing quite well; as the other was having some difficulty, Mr. Karp began to work closely with him. When sales increased and the company could afford a larger central executive group, Mr. Karp planned to move the stronger division heads to higher positions. In his opinion, the experience of having run an independent division would be valuable preparation for advancement. Mr. Karp also anticipated that his successor would be selected from this group.

In a somewhat similar way the board of directors of the Macomb Chocolate Company encouraged the development of successor management. Mr. Herman and Mr. Smith had been directors of the Macomb Company for a long time and knew its manager, Ray Sims, very well. Under the latter's direction the Macomb Company operating record was excellent. Mr. Sims had a flair for merchandising and was well-known throughout the candy distribution field. He was also

an excellent candy production man and had designed several ingenious chocolate cooling machines.

Although he was outstanding as a leader, Mr. Sims lacked ability to bring other managers along. A succession of possible replacements had come and gone at Macomb, and Mr. Sims had not been able to find a candidate who he thought qualified for the top job. Mr. Herman and Mr. Smith were concerned about the company's succession problem and said that at the pace he drove himself Mr. Sims could be out of the picture overnight. The two men were also doubtful of the success of further efforts to get Mr. Sims to change his way of working so as to give subordinates a larger part in running the company. Mr. Sims, at age 68, was rather set in his ways. Furthermore, even if a transformation could be effected, the two directors thought it might work adversely on the short-run efficiency of the company and its profit position.

The directors therefore urged the company to go ahead with plans for a branch plant in order that a separate company activity might be used as a training ground for new management. The branch operation was set up in the Louisville area, where Macomb sales had expanded rapidly, and the directors, working closely with Mr. Sims, selected a promising young man and put him in charge. The latter, working within the general framework of company policy, operated as an independent enterpriser, free of Mr. Sims's usual close supervision.

The board members kept close watch over the subsidiary operation and made certain that its manager was given aid and counsel when needed. After several years he was brought back to act as second-in-command to Mr. Sims at Macomb, and another man was sent to the Louisville plant. By working with these younger men and by helping them with their individual problems, the directors achieved a considerable strengthening of the Macomb organization.

Management Development in the Small Business

Over the long run neither a large business nor a small one can survive unless adequate management is available. Large

firms increasingly have recognized this truth and have budgeted both time and money in generous amounts for purposes of management training. Small concerns, however, have not generally answered this challenge. Public mourners have long bewailed the difficult position of small business. Constantly they reiterate competitive advantages enjoyed by big firms, their large dollar assets, their ability to advertise extensively and to employ experts of every kind to maximize efficiency. Strangely enough, these mourners have given scant attention so far to the important competitive advantage which large companies are acquiring through their efforts to insure a steady and continuing supply of capable management.

In the course of this study we have seen too many thriving small companies to believe that small business is really in peril. But small businessmen do need urgently to pay more attention to building up their management reserves. Security for small business is much more likely to proceed from such a course of action than from protective governmental agencies or special political concessions.

Any attempt to persuade small businessmen to give more thought to management development must recognize what cannot be done as well as what is practicable. Most small businessmen must continue to receive their executive education without the benefit of any expensive or time-consuming special program of training. They must learn through the day-to-day process of working on the job, in situations where little conscious planning is given to the aim of developing executive skills. Such a system does produce small business managers, and some very good ones. The small business still offers opportunity for the shipping-clerk-to-president career.

Furthermore, any attempt to make a "manager" out of every small businessman is bound to lead to failure. Many small businessmen are not managers in the technical sense of the word; their skills do not lie primarily in the areas of building an organization, in delegating work to others, or in making long-run plans. Rather, they are enterprisers, skillful in sensing an opportunity and in taking advantage of it, without relying heavily on others. One popular way of describing the

small businessman is to say that he is a "jack of all trades" because he may have to do a great many things, from dealing with customers to repairing a factory machine. Such a description may be valid, at least when applied to the case of a company where one man works with a few employees. But if the small business is large enough so that a sparse but evident organization is in effect, then the "jack of all trades" explanation is of partial but limited helpfulness. In our judgment, the critical factor about most small businessmen is not the fact that they know a little about a lot, but rather that they have one or two specific skills. Be that as it may, regardless of the number and scope of their abilities, many small businessmen are "operators," and misguided attempts to convert them into "administrators" may undermine company efficiency. Meeting the problem of management development involves a balancing of objectives. While the small businessman needs to become more skilled in the over-all direction of his company, he does not have to make a major sacrifice of his specialized operating abilities.

This chapter has outlined several approaches which we observed to be successful in helping small companies develop their management resources. They were successful, in large measure, because they avoided the dilemma mentioned in the previous paragraph. They permitted the small businessman to be "himself" and yet develop his subordinates. Of the alternative approaches described, we believe it is more promising to try to develop the management group than to concentrate all efforts on one individual. The risk of total failure is less, and furthermore any action which serves to strengthen the executive team pays dividends in the present, as well as in the future. We further believe that when methods of development are being considered, the training that takes place as a part of day-to-day operations is especially important because it should be useful in any situation.

What conditions facilitate training? There is no one simple answer to this question, but in general it may be said that, where active boards of directors are available, they have often helped substantially by arousing the manager's interest in the problem and by following up to see that something is done

about it. In some cases, such as the Macomb Chocolate Company, where the manager is unsuited for the job of developing others, directors have been helpful in making outside arrangements for such training.

Company growth is another factor which can help the small businessman who is trying to develop his management group. This subject will be covered in detail in Chapter IX. It should be noted here, however, that growth provides the small firm with an opportunity to build an organization. In the growing company more managers are needed, more money is often available to hire them, and often there are novel problems to challenge and develop the talents of the management group.

While "on-the-job training" will always be the principal development technique used by small business, some experiments are being attempted in an effort to use formal educational devices to train small business managers. A large number of such executive development programs have been initiated at various colleges throughout the country. These "advanced management" programs typically bring together at the university a group of businessmen from a number of different companies. The nature of the program, in requiring the executive to leave his job for a period of five to thirteen weeks, limits its appeal to many small businessmen. There is another type of management training program, however, which brings its activities to a city, thereby permitting the small businessman to attend the course and still run his business. One such program was conducted at Racine, Wisconsin, where businessmen of that region were given a chance to work with a formal management training program on a part-time basis.

If additional programs of this type are to be developed, and there is room for them, certain general principles should perhaps be observed. First, the work should be a series of short sessions rather than one long one. There are few small business managers who can stay away from their companies for several months. Second, the program should be directed toward men with some management experience. Lastly, instruction should be centered on case situations involving the

management problems of small companies and directed toward improving the management skills of the participants rather than their technical skills in specialized areas like selling or production.

The development of small business management will always be in part the product of unplanned events and casual direction. But conscious recognition of the development problem, plus a willingness to do something about it, provides the basis for constructive action. To develop his executives, a manager must be able to see the teaching and learning opportunities in day-to-day events; he must be willing to spend some time and effort on the problem and adjust his own way of working so that subordinates will have an increasing opportunity to learn. These are difficult standards, but not impossible ones, as the case histories of this chapter have demonstrated.

CHAPTER VIII

Helping the Small Business Manager Retire

In the preceding two chapters we summarized some of the major steps which a retiring executive can take to help his company through a period of management transition. We stressed the importance of limiting the number and scope of the problems that the new administration will inherit. We also stressed the importance of developing management reserves, from which the successor can be chosen. Another critical question still remains: What can be done to minimize the disadvantages of retiring for the officer who is stepping out? If answers can be found to this question, both officer and company will benefit.[1]

The difficulties posed by retirement are perplexing, so much so that many small businessmen never really face up to them. Their ample optimism about most matters is especially evident with reference to retirement plans. In many cases the small businessman just doesn't have any. He either goes on the perpetual assumption that he is good for "a few more years" or decides that he is going to run the company until he dies with his boots on. In one small company visited, for example, the manager was an old gentleman of 86. When asked who would take over in the event of his death or retirement, he quickly replied, "My brother, of course." "How old is he?" we asked. "Why, only 79 years old." This particular manager announced that he was good for at least several more years before he wanted to retire. Such an attitude works against any effort to make advance preparations for management succession and means that top management changes are left to the unpredictable timing of either death or serious infirmity.

[1]For an over-all discussion of the problems of executive retirement, see Harold R. Hall, *Some Observations on Executive Retirement* (Boston, Harvard Business School, Division of Research, 1953).

In this chapter we will first consider some of the factors which make it difficult for the individual small businessman to face retirement, and next we will relate how some small companies have successfully dealt with this problem. These case histories will highlight the importance of making retirement financially possible and of preserving the outgoing manager's sense of usefulness; they will also show the need for some administrative mechanism to help make certain that retirement objectives will be met. Finally, we will consider some of the difficulties commonly encountered by small firms attempting to deal with this problem.

Some of the Factors Involved in Retirement

The case of Mr. Bevan, president of the Accurate Products Company, illustrates many of the difficulties which confront a small businessman in preparing for retirement. Mr. Bevan had founded Accurate Products in 1921 and gradually built up sales to a peak of $2 million. Much of Accurate's success rested on Mr. Bevan's sales abilities; his associates said that he always sold everyone at least 110% of what they needed. He was well-known in the trade and was personally acquainted with the purchasing agents of many industrial concerns in the Middle Atlantic region; he also had an excellent market sense for new product needs.

Mr. Bevan carried most of the company's responsibilities on his own shoulders during its early years. Accurate's growth, however, forced him to take on, one by one, a production superintendent, an accountant, a treasurer, and a chief engineer. Except for a few shares of stock owned by this officer group, Mr. Bevan and his family controlled the Accurate Company.

In 1952 Mr. Bevan was in his early sixties, and there was no indication that he had done much serious thinking about his own eventual retirement. So far as succession was concerned, his most tangible idea was a hope that some day his son might head up the company. A consultant's report stressed the vulnerability of Accurate to the loss of its president-sales manager and noted the dependence of other executives on Mr.

Bevan for a review of many of their daily decisions. The report also called attention to the situation in the sales area, where Mr. Bevan handled all operations personally. In the event of his illness or retirement, there was no backstop available to handle this critical job, despite the development of the limited executive organization.

What stood in the way of some provision for retirement planning at the Accurate Products Company? The first and most important barrier was the top manager himself. Mr. Bevan had spent most of his life building up the Accurate Company, and its current success was a source of great pride to him. He enjoyed talking about his struggles to start the company and keep it alive and derived considerable satisfaction from the fact that it still needed his skills and leadership to keep going. Anything happening at Accurate Products was of interest to Mr. Bevan, and he kept close track of all operating details. This personal supervision of his company was possible only because he devoted most of his time to "the business."

Under these circumstances it is understandable that Mr. Bevan did not wish to look ahead and make plans for his eventual retirement. Such action would force him to make drastic changes in his daily pattern of activity and to reappraise his usefulness to the company, once entirely dependent upon him. Successful retirement for the small company manager, and perhaps as well for his counterpart in the large company, requires a willingness to accept a new role in life at a time when change is not a very agreeable prospect.

In Accurate Products, as in many small companies, there were no formal procedures for retiring the top manager or members of his executive group. Under such circumstances retirement typically occurs at the convenience of the top manager. No one associated with Accurate Products was in a position to force Mr. Bevan to do any retirement planning, despite the fact that such action might have helped his company. Moreover, even if Mr. Bevan had set up some retirement goals, there was no administrative mechanism to insure that he would stick by them. We observed several cases where small concerns had established retirement schedules

without doing anything to make certain that they would be followed. Such programs typically collapse when put to the test of the first executive retirement. Retirement schedules without some effective provision to back them up are much like a child's promise of permanent goodness the week before Christmas; they are rarely adhered to.

Another factor which prevented Mr. Bevan from planning his retirement was the absence of a qualified successor. Mr. Bevan *was* the Accurate Products Company in large measure. Although his department heads were capable men, they were not qualified to lead the company, and his son, while a possible long-run candidate, was not planning to come to work until he had completed his formal education. Mr. Bevan could correctly say that if he were to step out, Accurate Products would have to shut down.

Finally, in the Accurate Company, and the situation is a typical one, Mr. Bevan's interest in retirement was limited by the financial burdens such a move would create. The company had never paid more than token dividends, and Mr. Bevan's payment for ownership plus his salary for managing the company were lumped together. He received a monthly check which constituted his total "take" from Accurate, and even that was small. To finance his company's expansion without sale of stock to outside interests, Mr. Bevan had to keep his monthly "take-out" to a minimum. If a new manager had been brought in from outside the family, the Accurate Company would have had to support a relatively high-price manager as well as Mr. Bevan and his family. The financial burdens of such a move would have weighed heavily on the company's earnings.

In the course of this study we visited a number of companies in which top management retirement was long overdue and in which management atrophy seemed to be evident. These over-age managers seemed reluctant to venture into new areas or dig into problems where trouble might be expected. Their motto seemed to be "let's let things ride and not stir up too much trouble," and their lack of initiative was reflected throughout their organizations. As one department head in such a company reported: "What's the use of fighting?

Our outfit is getting further and further behind competition, but the old man just sits tight. He won't even let us buy new desks, and the ones we are now using have been here since the company was started. He says you can still write on them! Every time we suggest a new idea he says: 'Let's sit on it.' The trouble is he never gets up, and your ideas are suffocated."

This tendency of aging top management to take it easy often conflicts with the needs of the business. The manager approaching retirement age can make a substantial contribution to his company if, as previously indicated, he limits the problems his successor will have to face and builds an effective management team. The question of retirement therefore brings out a possible conflict of interests between the top manager and the company. When the date and manner of retirement are left to the self-discipline of the top manager, he often hangs on beyond the time when he could effectively lead the company. This weakens the company's immediate position and complicates the problem of changing to successor management.

Some small firms, however, do take steps to help their top managers retire. Such action is more likely in small firms where ownership and management are separated to some degree than in owner-managed concerns. A few of the latter, however, have taken action in this area. When the small businessman works out a retirement program and adheres to it, some measure of advance planning for management succession can be achieved. The benefits accrue to the top manager, to the company, and to the community at large.

Limiting the Financial Problems of Retirement

One way in which some small companies have tried to limit the problems of retirement for their executives has been to make financial preparations for this change. Through various financial plans these firms insured the retired executive some continuing income, despite his withdrawal from active management. When the financial problems of retirement are partially covered by such a plan, companies find it less difficult to insist upon and obtain the retirement of their executives when the situation demands such action.

The interest currently manifested by small business in the financial problems of retirement is of recent origin. Most of the small concerns interviewed which have attempted to do something in this area started their programs in the postwar period. One explanation often made for this development is the statement: "The unions are obtaining pensions for our employees; we want to treat management equally as well." In other cases, however, small firms have made such arrangements to facilitate top management changeover. One such case was the Ottumwa Cable Company, a small wire and cable company employing about 350 persons. The concern was owned by about 50 stockholders, with one family controlling approximately 20% of the stock.

Mr. Taylor, president of Ottumwa, had formerly been employed by a large national utility which had an elaborate retirement schedule. Although he realized that Ottumwa could not finance a similar program, he believed that small companies could and should do something in this field.

When Mr. Taylor first came to Ottumwa, he found an executive group which he described as having "gone to seed." Older executives were permitted to continue on the job as long as they were physically able. They all were in their late sixties, except a vice president in charge of accounting who was over seventy and a source of constant irritation to other personnel. He had been the company's original bookkeeper and was still running his department in much the same way as it had operated in the early years of Ottumwa.

Mr. Taylor and the Ottumwa board worked out a proposal whereby the incumbent management group would be retired within a 10-year period. Mr. Taylor's plan provided for a gradual tapering off of the manager's income and participation in management affairs. At age 65 or 68, he would go on half-time duty and pay, with final retirement occurring at age 70. If the executive's situation required it, occasional part-time projects would enable him to earn additional income after his final retirement date.

Mr. Taylor was reasonably well-satisfied with the results of his program. Under its provisions three executives were fully retired and another was in the process, drawing partial pay

and working only part time. Mr. Taylor noted that this plan, by giving the company some rough idea as to when officer positions would be vacant, had helped him to make certain that management replacements would be ready when needed.

The Weston Milling Company developed a somewhat different approach to financing top management retirement. Mr. Graff, president and majority stockholder, cooperated with technical and legal counsel to evolve a contributory pension plan for both workers and executives. Pensions were funded through purchasing individual life insurance policies, and this arrangement was supplemented by social security benefits. Under this system a senior executive could obtain a pension of about 35% of his average annual earnings for his last years in office.

Mr. Graff said that Weston had also worked out a plan for selling small blocks of stock to executives and, if necessary, helping them to finance the purchase. The company had been exceedingly profitable, and the dividends paid on its stock were excellent, a welcome addition to pension benefits. Mr. Graff believed that the plan had eased the financial problem of his retiring executives and, in addition, had enabled Weston to require retirement of all top executives at age 65.

Mr. Graff's own retirement was coming up in a few years. In cooperation with his board, he had selected a successor and was spending a considerable amount of time with him. Mr. Graff concluded that while he might have to resign from several of his clubs, the Weston pension would help him to cushion the financial problems of retirement.

This executive also pointed to important but unexpected benefits to the company from the pension plan. "From my point of view, the pension plan with its fixed dates has helped with the whole problem of retirement here. Now everyone knows when he has to move out and prepares for that day. It brings some certainty into the situation and gives us time to get used to the whole idea. It has also given me an opportunity to push older company executives to bring along junior management. I tell them it's to their advantage to have a

capable understudy. If Weston is to be able to pay dividends on their stock in the future, it will have to have good management in all positions. They can help make certain that happens."

The case of the Dover Trailer Company provides another example of a small firm which helped to finance top executive retirement. When Mr. Dover, owner and manager of the company, passed away, his son-in-law, Mr. Chapman, was named president of the company. At the same time, the old gentleman's estate was settled, and a majority of Dover stock was privately placed with a small group of outside investors.

Mr. Chapman's administration of the company was quite satisfactory. He brought it through the depression of the 1930's, and during World War II Dover's production record was the best in the industry. The strains of the past 20 years, however, had taken their toll from Mr. Chapman. When he reached his fifty-fifth birthday, therefore, he approached members of the family and other large stockholders with the proposition that he retire in 10 years. He estimated that in those years he could complete certain company projects as well as strengthen the executive organization to a point where successor management could take over.

After considerable discussion, all interests agreed to give Mr. Chapman a contract to run the company for the next 10 years at a stated salary. The company also set up a deferred compensation plan which would pay him a substantial sum every month for the 12 years following his retirement. This plan helped not only Mr. Chapman but the company as well, since it precluded "tired management" from hanging on too long.

In the Ottumwa, Weston, and Dover Companies, where ownership and management were separated, some provision was made to help the retiring executives with their financial problems. We found only an occasional small owner-managed firm, however, which had worked out such financial plans. As one owner-manager commented: "I've never worried very much about retirement and plan to work as long as I'm able. When I do retire, I can still keep some sort of a title here and let them continue to pay me. After all, this is my company."

Such a policy has weaknesses. It makes no provision for nonfamily members of management, and so far as the owner is concerned, if he retires but continues to draw a substantial salary, he puts a heavy drain on the finances of his firm. Such was the case in the Berlin Slipper Company.

Mr. Berlin founded his firm in 1933, several years after he had immigrated to this country. The concern manufactured medium-price and quality slippers for men and boys. While it had never been exceptionally profitable—company sales never exceeded $750,000—it had afforded Mr. Berlin and his family a very comfortable living.

In 1950 Mr. Berlin finally acceded to medical and family counsel and retired from active management of the company. He appointed his assistant, Mr. Voss, as general manager and chief operating executive of the company, giving him complete authority to run the business and raising his salary considerably. Mr. Berlin maintained his title as president and continued to draw his former salary and other benefits from the company.

Having two top managers on the payroll meant that Berlin had to meet a substantial cash drain each month which kept the business perpetually short of money. Lack of ready cash prevented the company from making advantageous purchases of raw material and limited its sales promotion efforts. "It makes it tough for the whole organization," Mr. Voss stated. "This double payment limits me in what I can do to put together a team. We need a sales manager and a designer, but I can't do that and continue to support Mr. Berlin in the style he has gotten used to. I can understand paying him some money. He owns the company—but, he wants every bit as much now as he got when he was putting his know-how into the outfit. This company can't afford two presidents."

The Berlin case is a familiar story. The cast of characters and the final act may differ, but the basic plot remains the same. The fact that a small businessman owns his company does not mean that he can escape the financial costs or problems of retirement. If he hangs on beyond the time when he can provide capable leadership, his business suffers from lack of effective management. If, on the other hand, he re-

mains on the payroll but does not work, the business pays a heavy charge to support its dual leadership.

Making some financial provision for retiring management is one action which small firms can take in dealing with the problem of succession. When such arrangements are made, advantages accrue to both the officer and the company. So far as the manager is concerned, he can retire with assurance of continuing income. The company benefits from having a preplanned retirement schedule; if management knows when replacements will be needed, it thus has some incentive to get them ready. Furthermore, such a program makes it somewhat easier to insist upon retirement at a specified date.

Small companies have only just begun to take steps to help management with the financial aspects of retirement. If the present trend continues, however, an increasing number of firms will be making such arrangements. The whole area of pension and retirement benefits is a technically complex field, requiring professional counsel. We have presented some case examples which indicate the breadth and variety of such proposals. Making provision for the financial problems of retirement is not the most critical consideration in helping a small businessman retire, but it is extremely important.

Maintaining a Sense of Usefulness

If a retirement plan is to succeed, it should recognize the psychological as well as the financial problems involved in stepping out of office. Some provision should be made for helping the retiring manager realize that he is still useful to both himself and his company. This is true for big as well as for small business, but it has special importance to the small businessman, whose personal and business life are so closely interwoven. Some small concerns have minimized the problem of management change by finding ways to use the skills of their retiring executives.

A case in point is the Carolina Foundry Company, managed by Mr. Frank Tucker since its incorporation. When Mr. Tucker died in 1942, the other owners of the firm tried to recruit a replacement from another foundry but were unsuc-

cessful. Carolina could not compete with the salaries which newer and more modern foundries were paying.

Subsequently, Mr. Jenson, head of the company's engineering and estimating operations, was placed in charge. His administration was satisfactory, but personnel strains began to develop once the rush of World War II orders had passed. Mr. Jenson was an excellent engineer, and his skill in grey iron casting had won him a reputation throughout the South. He was less successful, however, in working with other officers of the company; in fact, some called him a "stubborn Swede."

After one serious disagreement, two of Carolina's officers left to take higher paying jobs with another foundry. This aroused the concern of the owners, who decided that something would have to be done. In 1947 they therefore set up a plan whereby Mr. Jenson would retire in 1949 at age 68. The arrangement included a provision enabling him to continue to act as an engineering consultant to the company for an additional five-year period. Initially this would be a full-time assignment, but would taper off to a part-time schedule.

Mr. Frank Tucker, Jr., who took over as the new general manager, reported that this arrangement was successful. In some ways he believed Mr. Jenson was happier in his new role than he had been as president. "Something had to be done, and we couldn't have just tossed him out in the street. He is a bachelor, has no outside interests, and has given most of his life to the company. Under this arrangement he can and does feel that he is still a part of the company. He has an excellent reputation in the engineering field, and we still can use his skills."

Another small firm which tried to help its retiring top manager maintain his sense of usefulness was the Axford Company, a small manufacturer of garden implements. When Mr. Jarvis retired as president, he became, in accordance with company tradition, the chairman of the board of directors. At that time the Axford board was inactive, and the chairman's job consisted primarily of "backstopping" incumbent management in case of sudden illness or death and of providing seasoned judgment on operating and policy problems.

Relations between Mr. Jarvis and the new manager, Mr. Gabor, were excellent. Mr. Jarvis maintained an office at the company and spent several hours a day working on Axford problems. He was also available for consultation whenever Mr. Gabor wanted to discuss a problem. Mr. Gabor stated that Mr. Jarvis stayed completely out of operating questions except under emergency conditions. Mr. Jarvis' role as a "senior counselor" enabled him not only to maintain his income, but also to feel that he was still contributing to the company for which he had worked so many years. From the company's point of view, the arrangement was particularly fortunate. Before Mr. Jarvis' appointment as chairman, the Axford board had been of little value to management, but under his direction it took on new life. He secured the services of several outside men who brought to the group a broad background of experience, and they began to work closely with management on problems of a policy nature which had previously been neglected.

The Carolina and Axford Companies helped their retiring managers by continuing to use their skills on a part-time basis. In the Amish Company and the Buren Corporation, retiring management on its own initiative uncovered opportunities for useful service in other small companies and in outside activities.

Mr. Higbee, chief executive and owner of the Amish Company, retired from active management in 1949. Several years before that date he had discussed retirement plans with his son Fred, as well as with other members of management, and had made a number of personnel changes. He placed Fred in charge of the company and advanced two other officers in salary and title. Mr. Higbee, Sr., began to spend less time on the details of Amish operation; he regarded his main job as one of watching the new team and evaluating its ability to run the company.

During this "trial run" a business acquaintance directed Mr. Higbee's attention to a small metal press firm, the Charles Arthur Company, located in southern Ohio. Mr. Anderson, president of the concern, had passed away at a time when company affairs were in a critical state. The company had

invested all its available cash resources plus a considerable sum of borrowed money in the development of a new press. While holding promise of superior performance, the new machine developed several "bugs" which reduced the quality and increased the cost of processed parts.

The executors of the estate did not believe that any of the Arthur executives had the qualifications needed to pull the company out of its immediate difficulties. They were, consequently, anxious to obtain the services of a seasoned manager who could straighten out this situation and re-establish the company so that it might be sold as a going concern. Mr. Higbee met these requirements. He spent several days a week at the Arthur concern and within a year brought the new press into full-scale operation. His next objective was to develop, as rapidly as possible, a management group capable of running the company. Once this was done, Mr. Higbee's role was to be that of an outside consultant. The Arthur work plus his continued interest in his family concern gave him ample opportunity to make a contribution of importance, despite his "retired" status.

The experience of Mr. Ronalds, manager of the Buren Corporation, is somewhat similar. As he approached his middle sixties, Mr. Ronalds began to turn over much of his responsibility to his subordinates, especially to Mr. Church, his second-in-command. In an effort to develop other interests, Mr. Ronalds bought a farm and also devoted increasing amounts of time to his church and lodge, assuming several nonpaying administrative posts with those organizations.

When Mr. Ronalds retired from the Buren Corporation at age 65, he sold his substantial stockholdings in the company to its management group. His only remaining formal connection with the corporation was a semihonorary position as chairman of its inactive board of directors. Mr. Ronalds' announced philosophy was to make a clear break with the company. "If I had stayed around," he said, "I couldn't help but have wanted to have my say in operations. Besides, Mr. Church and his boys should have the right to change things around in any way they want to. My being there would only have made it harder for them, and I would proba-

bly be placed in the position of seeing some of my pet ideas discarded. That's not for me. Between the farm, church and lodge work, and lots of golf, I am as busy as I want to be."

Some small companies have helped both themselves and their retiring managers by assisting the latter to maintain a sense of pride and usefulness. This has been accomplished most successfully where retirement takes place in a series of steps rather than in one final and drastic move. If retirement planning is a long-run proposition, the older manager is given advance warning of the event, as well as time to adjust to his new role. Furthermore, such an approach facilitates the use of the retiring executive's skills, either by the company or by other business and social organizations.

Making Sure that Older Management Moves Out

Mr. Ronalds' decision to retire from the Buren Corporation simplified the problems of changing top management for that concern. Often, however, older managers are reluctant to face an end to their careers and "drag their feet" when retirement proposals are made; many refuse to take any action. As a means of insuring management attention to the problems of retirement, some small concerns have made use of outside counsel. Such was the case with the Edwards, Adaptor, and Fordhook Companies.

Shortly before World War II the Edwards family sold to the public a substantial percentage of its holdings in the business. The underwriter who handled the sale suggested that the Edwards board be reconstituted as an active organization. This recommendation was carried out; four outside members were added to the board, while Mr. Edwards, the president, and two other members of management also continued to serve. The directors were capable men who worked well together, and Mr. Edwards came to depend upon them for advice and counsel on all aspects of company operations.

One of the questions raised by the outside directors involved company plans for succession. Mr. Edwards was in his late fifties, and no replacement for him was available, since all the other company officers were approximately the same age or older. Until this question was raised, Mr. Ed-

wards stated, he had not done very much thinking about the retirement of various executives, including himself.

After considerable study, however, the Edwards board drew up some rough retirement goals for company executives which served to indicate when replacements would be needed. Exceptions to this schedule could be made, but only with the directors' approval. Then the board and officers went to work on devising ways and means of developing the management skills of the younger men in the company. Through Mr. Edwards the board encouraged the older officers to let the younger men have a chance to work on projects which involved informal reports to the directors. Finally, the board agreed upon a successor to the general manager's position who would take over several years before Mr. Edwards' retirement. The board suggested that Mr. Edwards stay on in an advisory role once his formal retirement became effective.

Although the final test of this plan would not come until Mr. Edwards himself stepped down, the board effected the retirement of several officers, including other members of the Edwards family. As one of the outside directors commented: "In handling the previous cases, we established some sort of a precedent that officers retire at a stated date. Mr. Edwards is aware of that, so I don't anticipate any serious problems."

The Adaptor Manufacturing Company, a closely held manufacturer of ice-making machinery, provides a further example of the usefulness of an outside board in working with retirement problems. When its manager, Mr. Weiss, approached his late sixties, the outside directors of the company became concerned with his unwillingness to discuss realistically his approaching retirement. Mr. Weiss told one director that he saw no reason why he should not manage the company for an indefinite period of time. Although he talked with company directors about his plans for bringing along a successor, he did little to back up his promises.

The Adaptor board was aware of the company's obligations to Mr. Weiss, who had devoted much of his life to building up the firm. It was also sensitive to the recent operating record of the firm and what it believed to be "old school" management. The board therefore worked out a retirement

plan that called for Mr. Weiss to retire on his seventieth birthday, to which he somewhat reluctantly agreed. In the interim the board divided company operations so that Mr. Weiss remained in charge of some departments while his probable successor handled the others. Mr. Weiss finally did retire under the provisions of the board's plan, and although his departure was not accompanied by complete harmony, he generally agreed that the action of the board was a wise move.

The Adaptor situation highlights the usefulness of outside counsel in a situation where management will not act voluntarily to put itself out of work. Mr. Weiss's interest in staying on was at variance with the company's need for aggressive management to meet increasing competition. By insisting that a successor be brought along and by making sure that retirement was accomplished when planned, the outside directors made a major contribution toward insuring continuity of management for the Adaptor Company.

In contrast to the Edwards and Adaptor Companies, the Fordhook Signal Corporation did not have an active board of directors. Mr. Baxter, president and general manager of the corporation, however, was very friendly with Mr. Shaw, trust officer for a local bank, and through his persistent interest this family-owned firm was able to work out a retirement program for management. As trustee for a small stock interest in the company, Mr. Shaw had come to know and respect the abilities of Mr. Baxter, who was the third member of the family to head up Fordhook. The two men frequently discussed the problems and possibilities of the firm and what might be done to maintain its profitable operating picture for the sake of both the family and the employees.

In one of these meetings Mr. Shaw talked with Mr. Baxter about his retirement plans and what arrangements might be made for someone to succeed him. He continued to raise this issue as time went on, presenting Mr. Baxter with case histories of other family-owned concerns which had been successful in working through a period of management transition. Although Mr. Baxter was willing to talk about the problem in a general way, he took no specific action with regard to himself and his company.

Some years later Mr. Baxter underwent major surgery. Using this illness as a case in point, Mr. Shaw again raised the question of succession. Both men agreed that as of the moment none of the Fordhook management group could take over the top manager's job.

Mr. Baxter later consented to withdraw gradually from the active management of Fordhook. He and Mr. Shaw developed a plan whereby some outside executives were brought into the company and two of Fordhook's most promising officers were given increased responsibilities. Later years proved the success of the program, and Mr. Baxter's successor was chosen from the new management group. Mr. Baxter, while maintaining an interest in Fordhook's financial results, kept out of day-to-day operations.

Outside counsel increases the probability that a small businessman will look into the question of retirement and do something about it. A board can present the issue and make certain that the businessman realizes its importance for his specific situation. It can utilize every available opportunity to bring the problem continually before the manager, keep up pressure for some action, and help management with the necessary preparations for this event. Finally, and most important, it can help to make certain that the manager does retire when he has agreed to do so.

Some Common Retirement Problems

As the case histories in this chapter indicate, small firms can take steps which will limit, but not eliminate, the problems raised by the retirement of the company's chief executive. We observed several persistent difficulties that remained, despite company efforts to deal with the question. The case of the Lincoln Parts Company is illustrative.

After many discussions with his management group as well as with the principal stockholders of the company, Mr. Lincoln announced his decision to retire from active leadership within a few years. As a preliminary move, Mr. Burger, an officer of the company for many years, was made general manager, reporting directly to Mr. Lincoln.

At the end of two years it was evident to the Lincoln Company as well as to its banker that Mr. Burger could provide effective leadership. Company operations were at a profitable level, and employees and officers were enthusiastic supporters of Mr. Burger. The only person who continued to feel uncertain about his qualifications was Mr. Lincoln, who told his banker that he would have to stay on for a short while longer until he was firmly convinced that Mr. Burger could handle company affairs for the long pull. Mr. Lincoln's "short while" stretched out until five years had passed since his first announcement. By that time Mr. Burger was uncertain as to whether Mr. Lincoln would ever retire. He subsequently left the Lincoln Company to take over the direction of another firm.

Mr. Lincoln's announcement that he was planning to retire and his designation of successor management gave promise that the company would safely negotiate its period of management transition. His failure to back up words with deeds, however, lost the firm a capable successor, and with Mr. Burger's resignation it was confronted with a serious problem. Mr. Lincoln was elderly, and in the event of his death there appeared to be no one ready to assume his position.

Another "run-of-the-mill" problem encountered by small firms which have tried to work out retirement programs is illustrated by the cases of the Malter and Boyer Companies. When Mr. Starr retired from active leadership of the Malter Company, he designated Mr. Mann as his successor. Mr. Starr agreed to serve as a consultant to the new manager, making available to him his long experience in the electric motor field.

Mr. Mann, recognizing Mr. Starr's accomplishments and skills, followed a practice of consulting with the former president before making any major decisions or changes in company policies. As the years went by, he continued to lean on Mr. Starr's excellent advice in a great number of situations until the latter's health forced him to retire completely from all activities. Then Mr. Mann was put on his own, and previously profitable company operations were seriously affected.

He had used Mr. Starr as a crutch for so long that he was unable to stand on his own feet.

A somewhat similar, but more drastic, situation occurred in the Boyer Company. When Mr. Boyer retired as president and general mangaer, he decided to bring in an outsider as a replacement. Although the other officers of the company were capable men in their respective fields, Mr. Boyer felt they were too old and set in their ways to handle the top management position.

The new man was a capable executive who in a short time made a number of major changes in the Boyer organization. These moves, while improving the company's competitive position and profits, antagonized the "old guard" officer group, who felt free to bring their complaints and criticisms to Mr. Boyer's attention. They continued to do this until Mr. Boyer's confidence in his successor was undermined and the man was discharged. Reluctantly Mr. Boyer returned to take over the president's job until another successor could be found.

Small concerns can take steps to minimize the problems of retiring the "old man," but troubles still develop. When a manager announces his retirement and then does not carry through with it, his replacement is put in a very uncomfortable position. Another common trouble occurs when the retiring manager becomes a senior counselor to his successor. He sometimes gives his counsel in such ample measure that the new manager never learns to handle his new position. Furthermore, if the former president maintains a close relationship with the subordinate officers of the company, he, in effect, undermines his successor and makes the new man's job of "taking over" more difficult.

Summary

Retirement, despite its difficulties and unpleasantness, cannot be ignored, for it is a problem of importance to both the company and the top manager. If older management can be successfully retired and new management brought in, the continuing health and vigor of the company is better assured.

As a manager approaches retirement, he frequently "slows up" and avoids tackling problems which may bring him a full measure of administrative trouble. Such neglect conflicts with the company's everyday need for capable direction, as well as with its special need for effective management while preparing for a change in leadership. A possible conflict between the manager's wishes and the company's requirements is one of the critical aspects of executive retirement in the small firm.

From the individual's point of view, retirement often poses serious problems. Stepping out from active leadership is difficult; it involves a substantial change in an executive's income, in his relationships with former associates, and in his feeling of being useful and wanted. Such a transition requires a change in the individual's point of view and way of living, which is extremely difficult to make.

There are major limitations on the ability of small firms to deal with the problem of top management retirement, and these are particularly evident in small owner-managed firms. Despite these limitations, however, some small concerns have worked out successful plans to meet this problem. Companies which have done this have not only helped their departing officers but have also strengthened themselves, since planning for retirement has usually meant planning for executive replacement as well.

While the small company can help its manager to retire by making appropriate financial plans and by arranging for the part-time use of his skills, much depends on the individual himself. If he has, through his way of living, developed other interests and avocations, he has a better chance to retire successfully. Satisfaction in retirement calls in some measure for preparation throughout an individual's whole life.

CHAPTER IX

"Growing Enterprise" and Management Succession

The size of a company affects the nature and extent of action which can be taken to insure continuity of management. In many small firms there is but one "executive," and his special skill at buying or manufacturing or selling is the company's major competitive asset. Under such circumstances the difficulties of providing for successor management are substantial, and the possibilities of growth are often limited to what one manager can supervise.

The small firm which is also a growing enterprise enjoys certain advantages in dealing with succession. Growth provides an opportunity for the small company to employ a group of managers capable of supporting the top executive in the operation of the company. By increasing the number of men in management, growth affords a broader base from which to choose a successor. Growth sets the stage for a transition from "one-man" management to "organizational" management.

Growth is one effective way of accelerating the development of management skills. Even if it involves only making and selling more of the same product, expansion brings new problems and demands that management do something about them. Growth often forces a company to reappraise its objectives and ways of operating, either because new projects are undertaken or because old activities must be performed more efficiently. Growth increases the chances for change; meeting changing conditions provides both a challenge and an opportunity for the executive to develop his own administrative skills. Growth also encourages executive development by opening up new management needs and positions. It acts as an incentive to lower management to develop its executive skills by holding out the promise of increased opportunity at the top level.

Growth further strengthens the small company organizationwise by allowing nonfamily or nonownership management to play a more important role. The small, growing enterprise typically calls upon outsiders to help fill the management opportunities created by expansion. In so doing, it enables the family-owned or family-dominated company to draw upon broader resources of management talent than may be found within the family ranks. Furthermore, growth frequently brings about an increase in public ownership and outside interest in the company, which not only provides a broader capital base for the small firm, but also opens up possibilities for the increased use of outside counsel, including active boards of directors.

Growth, moreover, brings some nonorganizational advantages. Profitable expansion gives the small firm more stability in the form of increased financial resources, wider trade and consumer acceptance, and a reputation in the community for being a progressive, "on-its-toes" firm. These nonmanagement advantages of growth help to strengthen the small business during a period of management transition.

Perhaps a note of explanation should be introduced at this point. While this study concludes that growth is a potent factor in determining a firm's ability to deal with succession, we do not mean to imply that every small company should think in terms of continuous expansion, or aim to mushroom into a "big business." Growth to a relatively modest size is adequate to facilitate effective provision for management succession. This objective is accomplished once the firm passes beyond the stage of one-man direction and acquires a definite management group, even though it may be a small one, rather informally organized. Moreover, it should be emphasized that growth, though helpful, is not imperative before action can be taken to deal with the succession problem. Even the smallest firm can benefit from exploring the approaches outlined in the five preceding chapters. When growth is restricted, company attempts to insure continuity of management are made more difficult, but not impossible.

This chapter will consider four aspects of growth and succession. We will outline some reasons why small companies

do not grow, the impact of growth on the small company's management organization, the changing job of the top manager in a small, growing enterprise, and finally, some of the "growing pains" accompanying such developments.

Why Don't Small Companies Grow?

Growth is a symbol of business respectability and success for many small businessmen. The fact that company operations are expanding is frequently cited as evidence of successful management. Being able to say, "I hit the million dollar mark this year," for example, meant a great deal to Mr. Emerson, president and general manager of the Lipman Company. It was a precise and understandable way of communicating to others evidence of his ability to run the business. Significant, and yet paradoxical, is the fact that in this case, as in others, expansion in sales was not matched with an equal increase in management "take-out payments." This did not seem to deter Mr. Emerson, however, from making the further prediction, "...and next year we will do $1,200,000. Pretty good for a little outfit, don't you think?" Expanding sales and more employees were to him badges of personal and company success.

Despite this frequently encountered attitude of "let's keep growing," many small businesses do not grow. In some industries the competitive pattern and the size and nature of the market tend to restrict the growth of a firm and place a premium on smallness. For example, in certain high-style markets a company, in order to stay alive, must be able to move rapidly from the original idea stage to finished item production. A small firm is well-suited to this type of competition. The manager is often his own designer, production manager, and star salesman, and when he decides to act, he carries out his decision at once. As such a firm grows and formalizes its operations and organization, it loses some of this "speed ability" and thus grows less competitive. In other situations, the small firm is geared to perform a specialty service to a limited market where growth opportunities are severely restricted. In still other firms smallness brings cost advantages which growth may eliminate. When organization and formal

procedures are held to an absolute minimum, overhead costs can be kept low. Small size may also bring cost advantages in bargaining with labor on wage and employment conditions and in the firm's ability to expand or contract its work force rapidly. Furthermore, the small firm, as an inconspicuous member of the community, sometimes escapes certain public obligations. Together these factors add up to a cost advantage which enables some small firms to compete with their larger counterparts. Growth may well mean a loss of these advantages and endanger the small company's chances of staying alive.

Another limitation on small company growth is encountered where heavy capital requirements are needed for expansion. In closely held corporations, where new capital sources are restricted and family management is reluctant to use public financing, expansion is limited to the amount of company earnings which can be reinvested.[1]

Still another limitation on growth has already been detailed. A small company which fails to provide for effective successor management is taken over by run-of-the-mill leadership, and the firm's chances for expansion are limited.

Finally, and most important, in some small companies growth is severely restricted because management is incapable of building and using a supporting organization. Enterprises, like individuals, pass through various critical stages in their development. One such stage, already mentioned, occurs when the incumbent president steps down and a new manager is put in his place. Another takes place when the enterprise grows to a certain size, where effective performance and growth are impeded if the manager continues to run his firm on a one-man basis. If at that juncture the chief executive is able to bring along other men to take over some of his management responsibility, we have the beginnings of an executive organization and increased chances for growth and survival. In many small companies, however, management does not have the skills needed to develop an organization. The his-

[1]For a thorough survey of closely controlled corporation financing, see Dan Throop Smith, *Effects of Taxation: Corporate Financial Policy* (Boston, Harvard Business School, Division of Research, 1952), Part II, Chaps. VI-X.

tories of the Knowlton, Simpson, and Canal Companies point up situations in which this was the case.

When John Knowlton founded his company in 1912, he realized a dream which had been in the making for over 20 years. Mr. Knowlton was an excellent practical designer, and his firm became very profitable, supplying equipment manufacturers with various locking and connecting devices. The company gradually expanded its product line to the point where it served eight allied industries; sales reached the $300,000 mark in the late 1920's. Although the potential market for Knowlton products continued to increase after that date, company unit sales increased but slightly.

A business associate of Mr. Knowlton described the company as one big bottleneck with Mr. Knowlton's desk as the stopper because he insisted that he see every order, invoice, and check. Although four men were designated as foremen, Mr. Knowlton kept a close check on their activities. All personnel and bookkeeping work was handled by an elderly male secretary who had been given the honorary title of vice president and director. At various times during the 1930's Mr. Knowlton attempted to bring along an assistant who could help him with his very heavy load, but the results were not successful. At the time of his death, the executors of the estate sold the company to outside interests. Its chances for growth had been limited by Mr. Knowlton's inability to develop an organization to support him in the management of the firm.

The Simpson Engineering Company had been managed on a partnership basis by Mr. McKee and Mr. Simpson for many years. When Mr. Simpson died, Mr. McKee became president and general manager. One of his first moves was to put into effect a reorganization plan with the announced objective of strengthening management so that the company could realize its full potential. He brought in a treasurer from the staff of a public accounting firm and advanced two older company employees to head up the sales and engineering activities.

Despite these additions to company management, the output of the Simpson Company did not increase substantially,

although the postwar demand for the company's machines was very heavy. Mr. McKee stated that the new executives were his chief assistants and could act for him, but in practice this was not the case; he insisted upon reviewing personally every machine design change and installation plan. He also checked the provisions of every sales contract and frequently conferred directly with the customers, often without informing either his chief engineer or sales manager. The position of these men was made still more difficult by the fact that Mr. McKee had headed both sales and engineering since the founding of the firm; the late Mr. Simpson had been primarily interested in accounting and finance. Consequently, older employees were accustomed to going to him with their problems and continued this practice despite the change in company operations.

Simpson's growth during prosperous postwar years was limited. Although Mr. McKee had gone through the motions of setting up an organization, he had not followed through with the action needed to make it work.

Somewhat different circumstances obtained in the Canal Company, a small specialized producer of electrical safety apparatus. Mr. Jacobs, its president, was a self-educated man who had built up a small, prosperous company employing about 50 people. Company products were sold primarily to several large midwestern utilities. Shortly before World War II several large manufacturing concerns approached Mr. Jacobs with the suggestion that he go into the production of a new electrical product which was then in short supply. The new item, while similar to Canal's older product line, required separate production and engineering facilities, which the larger firms were willing to help Mr. Jacobs obtain. He was agreeable to the suggestion, and the expansion program got under way.

It soon became evident to Mr. Jacobs that he could not continue to handle his former work and the new project as well. Since no one was available within the company, he hired Mr. Goldman to superintend the new department. Mr. Jacobs believed that the new operation would be managed as a separate unit and that his responsibility would be to re-

view major questions which Mr. Goldman brought to his attention.

The expansion was not successful; Mr. Jacobs and Mr. Goldman were not able to develop a satisfactory working arrangement. During the initial months of the new venture Mr. Goldman had been put on his own. Since the company's records were sketchy, Mr. Jacobs was forced to rely on conversations with Mr. Goldman and on occasional shipping document summaries for information on how the new unit was progressing. Customer complaints over quality and delivery finally brought Mr. Jacobs up short to the fact that things were not going well. His efforts to correct the situation were neither skilled nor successful. At first he tried to make suggestions to Mr. Goldman, and when these did not seem to improve matters, he began to spend a good bit of time working directly with the line operators in an effort to eliminate production "bugs." This only made Mr. Goldman angry and confused the operators, who were not sure what they ought to do. The final outcome was that Mr. Goldman was discharged and the new product line was abandoned.

The experiences of these three small firms are typical of many others. In each case the company's chances for growth were limited because the chief executive did not have the capacity to organize and use effectively a group of lieutenants. Such firms will probably always remain pretty much one-man operations with a high degree of vulnerability to the problems of succession. In the Knowlton case the chief executive was not willing to turn over responsibilities to anyone in his company. If a decision had to be made, he was the one to make it. Mr. McKee in the Simpson Company went through the motions of setting up an organization but did nothing to make it effective. In the Canal situation Mr. Jacobs was willing to hire an assistant and turn over operating responsibility to him. He was not successful, however, in keeping track of what his subordinate was doing or in helping him to solve the operating problems encountered.

The competitive structure of industry and the difficulties of securing financing are factors limiting the possible expansion of small companies. Perhaps the more important

limitations to small company growth, however, follow from the manner in which many small businessmen run their companies and their lack of skill in building and using a management organization.

The Impact of Growth on Management Organization

We have noted that growth enables a small company to develop from the "single-manager" stage to one where a management team is needed. Growth puts pressure on the small businessman to increase the participation of others in the management of the company, and it offers rich training opportunities for the new management group. The small firm which can complete this transition successfully increases its prospects for insuring continuity of management. The following cases show how some growing firms successfully developed organizations to support top management.

The Knowlton Company, previously mentioned, was purchased by Mr. Robert Morrow some months after John Knowlton's death. Although sales and profits had dropped, Mr. Morrow thought future prospects were promising. His first move was to re-establish employee and customer confidence in the fact that Knowlton was in business to stay. Later he began to strengthen management by working with his foremen to help them supervise their respective units. He also brought into the company a chief engineer to improve existing products and to see if new items could be designed. He later hired a commerce school graduate to take care of office work and record keeping. The number of company employees by this time stood above 100.

Knowlton sales gradually increased to a peak of $800,000 before World War II; by 1949 they had jumped to $2 million because of both old and new products. To provide for additional supervision, Mr. Morrow made one of his foremen works manager and promoted one of his sales engineers to head up a new sales department.

Knowlton sales finally reached almost $3 million. Mr. Morrow was well-satisfied with his firm's progress and expected the expansion to continue at a gradual rate. He was especially pleased with the performance of his executive

team which, despite initial difficulties, was working very well together. Mr. Morrow instituted a liberal profit-sharing plan which paid out substantial sums to the executive group, and he also set up a generous sickness and retirement plan for them.

Later, Mr. Morrow was advised by his doctor that he had heart trouble. While the condition did not call for his immediate retirement, it focused his attention on the need for successor leadership. He was confident that either the works manager or the sales manager could take over his position, although he had not designated one or the other, preferring to let competition among the various members of his organization continue. In contrast to the previous management, Mr. Morrow supplied the Knowlton Company with leadership that permitted and encouraged growth. As a result, he was able to expand company operations, develop an executive organization, and provide for succession.

The experience of the Grove Electric Company offers another example of the beneficial interaction between executive development and company growth. When Mr. Asher, son-in-law of the founder, took over active leadership, he commented that the firm hadn't had a new idea in 25 years, so under his direction change became the order of the day. Sales had previously been confined to supplying specialty motors to industries where safety was an important factor. Under Mr. Asher's leadership, however, company motors were redesigned to compete in the small motor field wherever manufacturers were willing to pay a premium price for compactness and light weight.

As the company grew, Mr. Asher began to rebuild the limited and aging staff which he had inherited. He advanced two of his more experienced foremen to be assistants to the plant manager, placing one in charge of the safety motor division, and making the second responsible for the new light motors. He made certain that the older plant manager gave his younger assistants plenty of leeway to make mistakes as well as progress. In the sales department he followed a similar procedure, promoting two of the younger salesmen to be in charge of the two motor lines. To fill the newly created

position of treasurer and to supervise all the record keeping, Mr. Asher hired Mr. Tarr, formerly assistant treasurer for a large electric motor manufacturer. He also secured the services of several business and community leaders on his board of directors, which helped him to work out a program for retiring older executives and employees. In addition, the board assisted Mr. Asher with a plan enabling Grove to utilize the technical and research skills of a large midwestern engineering school. This program was invaluable to the company in maintaining its position as a developer of new and improved specialty motors.

Mr. Asher had seen the possibilities of expanding into the light motor field and reorganized Grove to meet this need. The results were excellent: a fourfold increase in sales, a substantial increase in profits, and rejuvenation in the spirit of a moribund company. By expansion, moreover, Mr. Asher had been able to better his company's chances of providing for successor management. In setting up a "middle management" group of assistants to his major department heads, Mr. Asher gave "depth" to his organization. He believed that from the assistant group would come replacements for the department heads and eventually for himself, a prediction which later events tended to justify.

The case history of the Tiffin Brothers' Company illustrates the impact of growth on the organization of a family-dominated concern. For over 50 years every executive position at Tiffin had been occupied by a family member, all of whom the company had provided with a modest but adequate income. Sales of the company's major product, special machinery, continued at a steady rate to a stable customer list.

When Josiah Tiffin became president of the firm in 1938, he had no plans for changing the situation. The impact of World War II, however, altered company operations substantially; Tiffin products were not essential, but a conversion to war work was. In the process of carrying out this conversion, company engineers invented several control units, among other products, which could be successfully used in a number of consumer products such as home freezers and washing machines.

During the early postwar years Mr. Tiffin attempted to use old-line family management to meet the substantial demand for the company's expanded product line. The results were not satisfactory, however, and the company incurred losses. Mr. Tiffin subsequently decided to bring nonfamily management into the company. Over a period of five years he secured replacements for all key executive positions and also hired several new foremen and other supervisors. His problems in dealing with the older family managers were eased by the deaths of his two uncles, who had been operating vice presidents for many years.

Growth in the Tiffin Company was forced by the fortuitous discovery of a new control device and the rapid postwar expansion of the appliance industry. The expansion provided Mr. Tiffin with the opportunity to broaden his executive group through employing nonfamily management. These executives, working with Mr. Tiffin, were able to increase Tiffin sales almost tenfold.

Mr. Tiffin went on the assumption that his successor would come from within the company and would undoubtedly be a nonfamily man. The only Tiffin boy was in high school, and his father was uncertain as to his long-run interest in the business. At 61 Mr. Tiffin expected to let up somewhat on his very rigorous work schedule. He began to take several vacations each season, and in his absence the department managers, working as a group, handled company affairs. In an effort to encourage the development of this group, Mr. Tiffin began to present it with questions of major importance. For example, he asked for recommendations on how output could be increased through the more effective use of existing facilities. This matter was of current importance, since one of the company's major customers had been shut down for a short time because Tiffin was unable to meet its requirements. Mr. Tiffin used the "growing pains" of expansion as a means of training his company's future top executives.

We conclude that growth provides a small company with a chance to build a limited but useful management organization. When this has been accomplished, the small company enjoys much better prospects for handling succession effective-

ly because all its executive assets are no longer centered in one man. Furthermore, the organization lends strength to the successor in his leadership of the company.

The Top Manager's Changing Job in a Growing Concern

Top management's job in the small but growing enterprise is a changing one. As company growth results in the development of a small executive group with specialized functions assigned to each member, the top executive finds himself with new responsibilities, and he must modify his method of running his company. We observed at least three commonplace effects of growth on the small company manager's job. Growth enables him to back away somewhat from his former complete involvement in day-to-day work, thus allowing him more time to think about longer-run questions and future problems.

Second, growth calls for the development of new administrative and leadership skills. In increasing measure the chief executive must learn to work with and through others. This does not mean that he will cease to participate in day-to-day operations. In all probability he will still hold down a major operating job in addition to his over-all supervisory responsibilities. But at this stage the advantage shifts away from the manager who is able to do every job or watch over every detailed operation. It goes to the manager who is able to pick other men for these functions while he concentrates on developing their skills and on getting them to pull together as a team. Management in a growing enterprise must face up to the fact that while doing a job oneself is difficult, getting other people to work together also calls for proficiency and skill.

Finally, growth pushes the manager back from his former close personal supervision of each company activity. Although control by personal observation is still important, he must develop ways of keeping track of things on a more formalized basis, through systems and reports.[1] This is a difficult adjustment for a manager to make when his former practice

[1]For an analysis of record-keeping problems in small business, see Paul F. Lawler, *Record Keeping for the Control of Growing Manufacturing Enterprises* (Boston, Harvard Business School, Division of Research, 1947).

has been to go out and check up on production by counting the day's run of products. The following cases illustrate some typical results of expansion and their impact on the manager's job.

Mr. Shelton, founder of the Shelton Company, retired after 20 years of management during the depths of the depression. At that time his son-in-law, Mr. Leibe, became president of the firm. The Shelton Company manufactured special machinery for the automotive industry, and over the years it had built up an excellent reputation. Mr. Shelton's ability to design machinery had constituted the company's main competitive advantage.

Mr. Leibe ran the company singlehanded during the first few years of his administration, and his primary efforts were directed at just keeping it alive. As business conditions improved and sales increased, however, he found himself overburdened by paper work and by countless questions from production and engineering personnel. His situation was especially difficult, since by neither training nor experience was he fitted to perform the engineering-design function which Mr. Shelton had handled.

Mr. Leibe concluded that he needed a small management group to help him run the business. His first move was to hire a chief engineer to design machinery at customer request. He later made his senior foreman, Mr. Germer, works manager. Mr. Leibe commented that it took him three years to convert Mr. Germer into an executive willing and able to make decisions. Mr. Germer, he continued, had worked so long under Mr. Shelton's heavy hand that at first he was unable to make up his mind on any point, no matter how minor, without getting someone else's approval.

During the war, as business expanded, Mr. Leibe continued to increase his executive team. He added a purchasing agent, then a treasurer, each of whom acquired a few assistants. By 1949 Mr. Leibe had a group of six officers in charge of all the major activities of Shelton. Annual sales had increased from less than $1 million to over $5 million.

The growth of the Shelton Company made a considerable change in Mr. Leibe's job and in the nature of the problems

with which he dealt. As his organization grew, he spent less and less time on daily operating questions; these were taken care of by his executive group. He still followed his customary practice of checking all outgoing mail and of walking through the shop each day, but when problems arose, he usually worked them out with his department heads. He described his job as being that of a counselor and peacemaker. In 1952 he was spending a good deal of time with his engineering and production managers, trying to speed up the transfer of new products from the design to the production stage. He was also trying to find a "shelf job" for another family member whose main asset seemed to be an ability to irritate everyone.

From a policy point of view, Mr. Leibe was working on a number of questions which he considered critical. He was not sure how large a manufacturer of special machines could grow and still maintain effective cooperation between design engineer, tool and die man, and shop operators. He was drawing up plans for the sale of company stock and for withdrawing some Shelton money from the company. He was also considering the purchase of a small production machinery concern to diversify Shelton's operations.

Mr. Leibe's job as manager of Shelton was significantly changed by the growth of the company. Originally he had spent most of his time participating directly in the process of turning out special machinery, buying steel, supervising the bookkeeper, and helping the foreman to keep the machines moving. Currently, however, he was handling broader assignments which brought him less directly into the detail of operations. In some cases these assignments involved a major change in the direction of the company; for example, the purchase of a new firm. In other cases they involved anticipating future problems, such as the need for successor management. From the point of view of providing for succession, Mr. Leibe's conversion from a "working" to a "managing" president gave him time to work out plans to meet this problem and to develop an organization from which a future leader might be chosen.

The experience of the Children's Play Equipment Company is another case in point. For many years this concern, under

the leadership of its founder-president, had maintained a fairly stable rate of production. Although it had not expanded at a time when industry sales were going up, it had always operated at a profit.

When Mr. Gleason, former sales manager, became president of Children's, he was convinced that the company should expand by taking advantage of the increasing demand for children's wheeled toys. Accordingly, he directed a vigorous sales campaign which almost doubled the number of outlets handling the company line. This expansion in sales continued to a point where the factory was operating on three shifts.

Mr. Gleason stated that his most important job in the next 10-year period was to put together and train an executive organization. His first move was to bring in an advertising manager to supervise the company's efforts in that field. In order to give himself more free time, he turned over his selling responsibilities to a sales manager. This, he said with some feeling, was not a simple job: "It took me years of working and advising to get the new manager to a point where he could handle that activity without too much help from me." An office manager with the title of vice president was obtained from the company's public accountants. Mr. Gleason's final change in organization was to set up the office of executive vice president as a backstop for his own position.

Mr. Gleason contrasted his early concentration in the field of selling with his principal work as he now saw it: "We have expanded six times over former volume. This means I no longer can give every matter my personal O.K. My main job is in the area of working with the fellows to make sure things are coming along. I still approve any major expenditure of money or any important change from our former way of operating. For example, if we were to give up advertising in a magazine such as *Boy's Life* and switch over to 100% local dealer newspaper advertisements, I would want to check that. I personally keep track of the progress of younger men in the organization to try to make sure we have replacements in the line for all our major executives. This can't be done in a very precise way, but we do keep a rough check. A special problem for me lately has been to strengthen our production

operation. I'm not sure who the next president of Children's will be, but chances are he will come from the nonproduction side of the business. I therefore want to try to make doubly sure that production will be well-staffed and avoid trouble for the next fellow who has to run the company."

A final illustration of the changing job of a top manager in a growing enterprise is found in the case of the Whitney Heat Treating Company. In contrast to the Shelton and Children's Equipment Companies, where growth occurred over a considerable period of time, the expansion of the Whitney Company was sudden. From 1941 to 1943 the concern grew from a small custom heat treating shop to a production operation.

The great demand for heat treating during the early part of the war enabled the company to maintain profitable though extremely high-cost operations. Mr. Amberg, whose technical skills were the firm's main asset, continued to run the expanded operation much as he had formerly handled his custom shop. For example, although the number of employees had increased from several dozen to several hundred, the production setup remained unchanged. It consisted of a shop boss and two foremen. Output was scheduled on a "by guess and by golly" basis with resulting problems in quality and delivery.

Pressure from outside stockholders and the Armed Services resulted in a change of top management in early 1944, and Mr. Preston was brought in as the new general manager. Mr. Amberg was permitted to hold the title of president, but all his activities were confined to one of his real interests, the development of better heat treating methods.

In sizing up the situation, Mr. Preston concluded that his first job would be to build a management group. After studying the business and personnel for some time, Mr. Preston chose a number of officers to head up the major departments of the business. The area of production also received attention early, and one of his first efforts was to build up a group of foremen who could bring some order into the scrambled-up Whitney operations. All members of the new management organization with one exception came from within the company.

In addition to staffing his organization, Mr. Preston also instituted production and financial reports which gave the company its first statistical measure of progress and current condition. Acting on the suggestions of a firm of management consultants, he set up a production scheduling and control unit, which helped to increase efficiency. He also installed a system of purchasing controls.

Mr. Preston also took part in setting up an active board of directors for the Whitney Company, which provided him with a source of continuing counsel during both the reorganization period and the difficult days of the postwar recession. From Mr. Preston's point of view, the board also offered a practical means of reviewing company progress and problems. "When Mr. Amberg was in charge, he answered to no one and did as he pleased. Our board serves as a 'checking-up' group which helps to keep me on my toes."

Growth has a substantial effect on the position of the top manager in a small company. It offers him the opportunity to back away somewhat from complete involvement in daily operations and thus gives him a better chance to do something about longer-run problems, including succession.

"*Growing Pains*"

While growth benefits a small firm, it exacts a compensating price in terms of management efforts and problems. In this study we observed some common "growing pains" which seem to accompany the expansion of a one-man operation into a larger company. One such problem is the failure of the manager to grow with his business. Mr. Amberg in the Whitney Company, just described, is a case in point. The Ryan Mower Company provides another example.

When Mr. Ryan founded his company in 1933, one of the first employees he hired was a man named Grant. Mr. Grant worked for Mr. Ryan first as a salesman, then as an assistant in charge of sales, and after seven years he became sales manager for the company. During his first years in this position, Mr. Grant turned in a very creditable performance. Sales were confined to a local area, and he personally supervised the company's six salesmen. Very few records were

used by the Ryan Company generally, and this was especially true in Mr. Grant's department. So far as forecasting sales was concerned, Mr. Ryan, Mr. Grant, and the plant manager decided on about how many lawn mowers could be sold in the next year, and the production department made them up. Mr. Ryan was always available to help Mr. Grant with any problem he might have.

During the next 10 years the Ryan Company expanded in two ways. First, Mr. Ryan extended sales of the Ryan mower over the entire eastern seaboard. Second, he took on several new associated lines, including power lawn mowers and lawn-sweeping equipment. The result was a great increase in the number of outlets to which Ryan sold and the number of salesmen required to service these accounts.

Several years after the expansion program got under way, Mr. Ryan discharged Mr. Grant. In explaining this unhappy event, Mr. Ryan remarked: "Grant was a satisfactory sales manager for a small sales force, but he just couldn't handle the larger assignment. When you are running a small sales force, you don't need any records, and you can keep things on a very personal basis. As our company grew, we found out that some rough sales forecasting and budgeting of expenses had to be done. Mr. Grant couldn't do that. He was excellent when he worked with 6 salesmen selling one product, but he couldn't organize the work of 30 such salesmen handling several lines. He got so tied up in the day-to-day detail of working with his increased sales force that he couldn't get around to looking ahead to see what problems might be coming up in the future. As a result, we were late in meeting some of our competitors' moves. Some men just can't grow."

Mr. Grant's experience is a common one. In his particular case the problem centered around a department head's difficulties in taking on a larger administrative job. In the previously cited case of the Whitney Heat Treating Company, Mr. Amberg experienced a similar lack of success in changing his ways of directing the affairs of that company when wartime heat treating needs forced its rapid expansion. Growth calls for an ability to change and live in a new situation, and some small businessmen stumble on that hurdle.

Even when the small company executive adjusts his working habits to the demands of a bigger job, he may find himself unhappy in his new role. This is a second common managerial headache often caused by company growth. The Post Tool Company provides an illustration. Mr. Dee founded this company because he wanted to be his own boss. A born salesman, he gradually built up during the 1930's a profitable small business which manufactured specialty builders' tools. As his company expanded, Mr. Dee began to put together a small but effective group of assistants, but he still continued to handle a major part of the company's sales force.

During World War II and the construction boom which followed, sales of Post Company products expanded many times over. As a result of this, Mr. Dee stepped out of selling and devoted his time to the over-all management of the company. From an operating point of view, the results were excellent; company sales and profits continued to increase.

Mr. Dee was proud of his company's accomplishments. He was not certain, however, whether he liked the change in jobs. "There was something about being on the road, selling customers, and seeing what was happening that gave me a tremendous amount of personal satisfaction. I spend a good part of my time now trying to keep peace in the company family and to get other people to do things which need to be done. It's a lot harder for me to do that than to get out there and do the work myself. Perhaps I should get out and start a new company where I could be chief cook and bottle washer again."

In Mr. Dee's case, he continued to operate as the over-all manager of the Post Company. But sometimes the lure of operating detail is too great for the small businessman to resist, and so he intervenes in his subordinate manager's duties, often to the detriment of the company's efficient operation.

A final aspect of growth which seems to bother some small businessmen is the fact that with growth comes an increase in outsider interest and participation in company affairs. Growth often opens the door of a closed corporation, a prospect which is regarded with mixed feelings by some small businessmen. Such was the case in the Early Chemical Com-

pany, managed by the Early family for over 60 years. It was not until the administration of Mr. Steven Early III, however, that the concern experienced any significant expansion.

A rapid growth in the use of Early chemicals for industrial uses forced the firm to expand. This called for additional managers, and Mr. Early brought in a number of nonfamily executives, a move which was regarded with some lack of enthusiasm by other members of the family. To finance the expansion, preferred and common stock was sold, and the underwriters brought a number of outside directors onto the Early board. With the expansion there also came an increase in the number of requests for information about the company from both credit agencies and the purchasing departments of large customers.

Mr. Steven Early commented that the company was no longer a closed corporation to be managed and judged by a small group of family owners, but that it had achieved substantial advantages from its use of outside management and finance. "With expansion comes an inevitable dependence on outside resources," he said, "but it was a hard lesson for the family to learn that we could no longer run our own private show."

Growth brings to the small firm both problems and opportunities. Sometimes subordinate executives and top manager cannot grow up to their new responsibilities. In some cases growth forces "enterprisers" to become managers with a loss of personal satisfaction. Finally, growth sometimes introduces outsiders into the closed corporation. When a small businessman learns to live with these difficulties, however, his company is strengthened, with resulting benefits to the organization and to the business community at large.

Summary

The management requirements for growth are substantial. The small businessman must be willing to adapt his way of working to utilize the services of an executive organization. He must be able to develop new skills in selecting and developing executives. He must agree to modify his

former personal methods of management and to work more with subordinates to get things done. If he is adaptable and can make these changes, his company has a better chance of realizing its growth potential and, consequently, a better chance of seeing and solving the problem of succession.

CHAPTER X

Succession in the Family Corporation

MANY of the problems of management succession are the same for all small companies, whether they are family owned or not. In addition to these problems, there are special difficulties which confront the family-dominated firm. What these difficulties are and how some small concerns have successfully met them will be the topic for discussion in this chapter.

Little study has been made of the strengths and weaknesses which can be traced to family administration of a business. Beyond the popular but exaggerated saying, "shirt sleeves to shirt sleeves in three generations," there appears to be little recognition of the fact that family managers have some special problems. Where a family dominates a business, its members may have aspirations and demands at variance with the best interests of the enterprise. This is true with respect to company operations in general and is especially true with respect to succession. For example, the family practice of employing its own members within the business and in many cases of extending the employment opportunity to in-laws and distant relatives is an understandable one. It opens up to family membership some of the opportunities for position and salary which accompany ownership. Coupled with this is the usual assumption that a member of the family must head up the business regardless of the question of competence. It is, of course, within the power of the family to carry out these practices, but in some cases it can be achieved only at the expense of the company's position and profit picture. Such a practice restricts the opportunities that can be offered to nonfamily management talent, and places the company at a disadvantage in respect to competitors who can draw upon wider markets for their leaders.

Another complicating factor is the usual family practice of restricting information about company activities. Where the

business equals the family exchequer, company affairs are often matters of personal concern, and understandably the family wants few people to be "in the know." In some family firms this secrecy is carried to a point where only the top executive is allowed to see balance sheets and operating statements. While this "iron curtain" policy can be effective in keeping company affairs almost secret, it tends to foster an inbreeding of ideas and personnel and to allow ineffective methods and policies to remain long undiscovered.

This chapter is concerned with two major subjects. First, it will outline some of the special difficulties which confront the family firm in providing for succession. Among these are the problems of preserving family leadership and of attracting and using outside management talent where needed. The impact of family feuds is a third such problem, while a fourth is the difficulty of developing executive material in the family firm.

Second, the chapter will describe the successful approaches made to these problems by some small family firms. In spite of family feuds and the need to provide jobs and salaries for various members of the "clan," some family managers have tried to make certain that capable replacement management will be available when needed. To achieve this objective, these successful leaders have used various devices, such as limiting the number of family members in management and opening top jobs to nonfamily personnel. They have also given special attention to the problems of developing executive material within a family group. Outside counsel has also been helpful to family companies in dealing with succession.

Preserving Family Leadership

Family pride and tradition play an important part in the affairs of a small family firm, and this is a source of strength as well as weakness. Family loyalty has been responsible for the continued operation of many a small business through periods of hardship when considerations of profit and loss might well have dictated closing down. Family domination is often combined with a deep sense of personal responsibility for the employees and for the community, and with a convic-

tion that the enterprise must be kept successful for the sake of these people as well as for the owners.

Though family pride and tradition of leadership can be a source of strength to the family business, it can also be a source of considerable difficulty. One aspect of family management which often causes problems with regard to succession is the family insistence on having one of its members serve as the chief executive of the company. In some instances this philosophy is carried to a point where the parents exert a great deal of pressure to bring their sons and sons-in-law into the business and to keep them working there. Such a policy has in some cases produced competent executives; in other cases the end result has been substantial damage to the firm. One such case was the Dan Holt Company, a small Minnesota knitting mill.

Mr. Dan Holt founded his company to manufacture inexpensive knitted goods for coats and suits. He devoted the rest of his life to building up his business until annual sales reached the million dollar level. As sales expanded, Mr. Holt brought together a small executive group. He often told these men that when he retired his son was to take over his place as president. He was proud of the fact that Dan, Jr., liked to work at the company and had spoken of making it his life's career.

Dan, Jr., came to work full time for the Holt Company after completing his formal education. Starting out in the bookkeeping department, he later spent several years in production and engineering. He handled routine work in these departments satisfactorily. At a later date he was made assistant to the president. In this capacity, Dan sometimes handled company-wide projects when pressed for such help by his father. He continued, however, to spend most of his time in the detail of accountancy problems, the aspect of company operations which interested him most.

When the elder Mr. Holt died, young Dan became president. At that time the business was profitable. Subsequent decisions which Dan made in terms of operations and organization did not work out very well. After two years of Dan's leadership, the company's position had been considerably

weakened in terms of both profits and trade standing. The other officers of the company continued to work for young Dan but were generally skeptical of his ability. One of these executives summarized their feelings by saying: "Young Dan's O.K.—he's a good fellow, but the trouble is, his father was darned good, and he isn't that by a long shot. He just can't call the shots the way the old man could. Some of the boys don't respect him, and there has been a lot of back biting around here since the old man died. The situation isn't healthy here, but what can be done? Dan, Jr.'s mother wouldn't hear of anybody but a Holt running this outfit."

Dan Holt, Jr., himself was acutely aware of the situation but was not sure what he should do. "I'm only 33 years old," he stated, "and look at the grey hairs on my head. This has been hell for the past two years. I think I've got the stuff to run this place, but I'm not at all sure. It's a heck of a lot different without Dad around. He knew every nut and bolt in the whole factory and had grown up with these men. They would do anything for him. But with me it's different. Most of the officers are older than I am and know a heck of a lot more about their own departments than I do. Many's the day I wish I could get out of here, but I don't see any way but to try and fight it through."

In the Holt Company the problem of succession was, on the surface, made less difficult since the family agreed that young Dan was to be the next manager. Unfortunately, this did not solve the problem of management changeover. Dan, Jr., was having a great deal of difficulty in taking over, and the weight of evidence to date seemed to indicate that he did not have the necessary qualifications to handle the top manager's position. As one company officer remarked, "Dan is just overwhelmed by this job, and as a result things are going from bad to worse."

The Holt Company escaped one difficulty which the Cerney Corporation encountered. Young Dan Holt had been very willing to work in the business as an understudy to his father. Mr. Harry Cerney objected strenuously to his father's plan that he should enter the family business with the aim of some day becoming president.

Harry Cerney had wanted to be a doctor and in college he took a premedical course. He did not continue his medical education, however, under pressure from his parents. They argued that four generations of Cerneys had headed the family business and that it was Harry's duty to continue that tradition. After finishing college, he worked briefly for a large manufacturing concern and then came to work for his father.

Some years later, when his father retired, Harry became president of the Cerney Corporation. His administration was at best mediocre, and the company experienced several years in which substantial losses occurred. Harry's leadership was marked by inattention to some of the basic problems which were causing trouble for his firm. Company assets declined by about one-third during his first 10 years in office.

The Schneider Company case provides another instance where family pressure forced a son to assume the leadership of a business. Here the final result was more dramatic than in the Holt or Cerney cases. Mr. Schneider had worked long and hard to build up a small but prosperous cutlery company which he had inherited from his father. It was his strong wish that his son, Jacob, should follow the same path.

Jacob Schneider was not greatly interested in the cutlery business. To satisfy his father, however, he did agree to go into the firm. His first assignment was a position as head of the manufacturing department; his record there was a poor one. Relations between Jacob and his foremen were strained. As a result, orders were frequently late, and production costs were high.

Nevertheless, when Mr. Schneider died, Jacob was installed as the firm's new president in accordance with his father's wishes. He spent considerable time each day at a favorite club and left the business to drift along as best it could. Operating results were so poor that within a period of several years the company went into a voluntary liquidation.

Sometimes a family, in its efforts to maintain company leadership, is not satisfied with reserving the top position for a family member. In many small concerns studied, relatives of the owner filled most of the executive jobs. One illustration

of this 100% family management policy is the case of the Service Bonding Company, a small metal fabricating concern.

The affairs of the Eaton family and the Service Bonding Company were closely interwoven. Robert Eaton, oldest of the four Eaton boys, had founded the Service Bonding Company after his discharge from the Army at the end of World War I. As his company grew, he brought in his three brothers and his brother-in-law to head up its various departments. In addition, several distant relatives were employed in minor supervisory roles. Only the lowest echelons of management were filled by nonfamily people.

While Robert Eaton was alive, the Service Bonding Company prospered, and all members of the family shared in its prosperity. When he died, however, and his eldest son, Gilman, became president, affairs started on a downward trend which eventually led to a forced sale of the company. One complicating factor was the family productivity of the four Eaton brothers, each of whom had several sons and daughters. Most of the sons and sons-in-law wanted to come to work for the firm, and the result was an excess of managers in the concern. Another factor making Gilman's position difficult was the constant warfare among his relatives for position and advantage.

The case of the Service Bonding Company is one which we encountered, with minor variations, many times. If family domination is to work successfully for several generations, the family must be able to supply the management talents required for the operation of the enterprise. In one situation studied, family management had been carried so far that it was a tradition bordering on law for the eldest son to become the next president while the second son became the treasurer. These were the only two really responsible management positions in the company. While scientific progress has gone a long way, no family can hope to bring forth sons with specialized managerial abilities in the proper sequence to meet this requirement!

In the Holt and Cerney cases we have seen how a family can injure both its own and its company's prospects by insisting that a family member lead the business regardless of ability

or inclination. We have also seen that there can be too much family in a small firm, as the Service Bonding case illustrates. If company operations are converted into a family WPA project, the enterprise suffers.

Where family completely dominates management, it may also incur certain other costs. One such cost is the possibility of inbreeding, with a loss of challenge and new ideas. The Service Bonding Company case just referred to offers an illustration of this point. Mr. Robert Eaton, the company's first president, had founded the firm to exploit a new process for bonding precious metals. In later years he had expanded the business by finding new uses for his basic process. From the late 1930's on, however, the company continued to produce and sell its services to the same customers in the same manner. Innovation disappeared, and the family was content to let operations drift in the familiar channel. Management did not question or weigh the impact of new techniques of bonding which competitors had developed. The family was content to let things drift, and no one was available to question the wisdom of such an attitude.

Attracting Nonfamily Management

The family-dominated firm has a special problem in attracting the outside executive talent which it may need in order to assure continuity of management. Unless a family is fortunate enough to have within its ranks all the ability needed in the business, it must depend to some extent upon nonfamily managers for help. Yet there are few inducements which the family firm can offer when seeking to recruit assistance from outside. The case of the Cole Hardware Company, a small manufacturer of locks, illustrates some aspects of this problem.

The executive organization of Cole Hardware consisted of Mr. Peter Cole as president and sales manager, his wife's brother as vice president and treasurer, and Mr. Cole's three brothers as vice presidents and managers of the company's three plants. In Mr. Cole's opinion, two of his brothers were no longer up to their jobs. They had been able to perform well enough when the company's product line had been

smaller, and while the war restricted competition, but since then times had changed. Each of the brothers owned a minority share of company stock and enjoyed a very liberal salary. The brother-in-law held the treasurer's job only in an honorary way. That particular gentleman had originally been trained as a lawyer but had never been able to find his niche in the legal profession. As a result, Mr. Cole handled the treasurer's duties in addition to his own.

Mr. Cole was very much aware of the need for strengthening his organization and had concluded that reinforcements must be found outside the present management group. But the company was confronted with some serious limitations in obtaining this help. Mr. Cole was concerned about the prospects of adding additional overhead to the company. Executive compensation for his brothers and brother-in-law was already quite high, since they had to be compensated on a scale which would permit them to maintain their position in the community. To attract top-flight management talent, he estimated that he would have to pay in the $25,000 range, and Mr. Cole was reluctant to add this additional charge to his already high salary account. "The thing to do would be to let them out," he stated, "but I can't do that with my own brothers. Furthermore, if my brother-in-law isn't employed here in some sort of a job, I'll just have to find another way of supporting him. Getting rid of him wouldn't solve very much."

Mr. Cole's attention had been directed to the problems of organization and succession as a result of a serious illness which had kept him from his job for the first several months of 1953. Without his personal leadership, operations had been unprofitable, and the company's financial position had been weakened. As a result, Mr. Cole stated, his ability to hire outsiders had declined.

Mr. Cole went on to add that there were also nonfinancial aspects to his problem of executive recruitment. Several candidates had informed him that they were not anxious to go to work for a closely held family corporation.

The case of the Fenn Company shows why outside executive talent is often reluctant to join a family-dominated firm. The

Fenn Company, which manufactured medium-price leather baggage, had been owned and operated by the Fenn family since the 1890's. The three top officers of the firm were Fenns, and numerous sons as well as close and distant relatives were employed throughout the organization. What this situation meant to an outsider in company employ was described by Mr. Kell, who was in charge of the company's sales activities.

Mr. Kell, a man of considerable ability, had gone to work for the Fenn Company upon graduation from high school and had gradually worked his way up to the sales managership of the company. He stated that the Fenn family had been quite fair in their dealings with him, but "I sure wouldn't advise my son to go to work for a family concern. In the first place, I feel I am carrying the brother who has the title of vice president in charge of sales. I don't really have a title, although in practice I am the sales manager. Moreover, I'm only 43, but I'm at the top of the ladder here. They have made it very plain to me that I can't expect to go any higher in the company, at least as far as title is concerned. In this company the big time is reserved for 'the family'; we outsiders have to be content with playing in the bush leagues. J. R. Fenn, our president, has stated many times that this company is the Fenn family, and only a family man can be an officer of the company. And another point in this company, as in several others I know about, if you aren't in the family, you never are 'in the know.' I have some general ideas about how we do, but the books are not open for those of us who are out of the family circle. When you work for a family corporation, you are always on the outside looking in. That causes all sorts of problems."

Mr. Kell's statements, while based on his experience with the Fenn Company, have more general application. The nonfamily manager in the family concern is frequently limited in terms of how high he can go, and he is often acutely aware of his role as an outsider and of the incomplete acceptance accorded him by family members. The family firm must deal with these attitudes as well as with the problems of cost outlined by Mr. Cole if it is to be able to attract and utilize nonfamily managers.

Family Feuds

The survival of the family corporation is often made more difficult because of intra- and interfamily feuds and schisms. Arguments and serious differences of opinion about who should be the next president are by no means confined to family firms. But when such arguments occur within the framework of the family business, they seem to involve the emotions of all parties to an exceptionally high degree. In one company studied, the disagreement had reached the stage where the various family representatives would no longer speak to one another. As a result, each family group brought its own lawyer to the company board meetings. When questions were asked, the family member who wanted the information would write out his request and hand it to his lawyer, who would ask the question of the lawyer representing another family faction.

Family disagreements, of course, can arise in any number of different ways, from the bridge table to conferences on company operating strategy. They can be, and often are, a constant problem for the family company manager. So far as succession is concerned, these family feuds become especially difficult to cope with as ownership becomes diffused among several strong minority factions. This may occur as the one-family company passes into the hands of second and third generations. It may occur also when company ownership is vested in several different families on a corporate partnership basis. In either case, minorities come into being, and the prospect of internecine warfare enters into the succession picture. Minority stock fights over who should be president and which family members should hold what jobs can, and often do, seriously interfere with successful management transition.

The unfortunate result of a serious family dispute about succession is illustrated by the Baitsell Company case. The Baitsell Company had been founded by Jonathan Baitsell who, upon his death, had left the business to his only son, Thomas. Under Thomas' leadership, the company continued to prosper, and when he died unexpectedly in 1949,

ownership of the company was divided among his three sons and a daughter.

Although Thomas Baitsell, in his will, had decided questions of ownership, he had not made definite plans for succession of management. His eldest son, James, claimed that his father had wished the office to go to him, but other family members disagreed with this opinion. James had married a lady of considerable means, and her fortune had helped him establish his house in an exclusive residential district and to send his sons to a leading eastern college. This high social status had not endeared them to other members of the family.

The second son, Andrew, a bachelor, had few contacts with either the company or his immediate family. As sales manager, he drew out a very nice salary and let his assistant handle most of the operations. He concerned himself primarily with entertaining large customers. His stated position about succession was that if he couldn't have the job, then he didn't see why any of the other family members should have it. He was strongly opposed to his brother-in-law's taking over, since that meant the company would not be headed up by a Baitsell.

The remaining brother, David, and the brother-in-law had worked out their business and social relationships. As vice presidents they drew equal salaries from the firm and got along fairly well.

The outside member on the Baitsell board commented that it took months of patient maneuvering and talking before he had been able to get the children and the widow to agree on a successor. After much argument, it was decided to make David Baitsell president. This was accomplished only after the parties had agreed that title changes would not be accompanied by salary changes. "Getting family support for the move, however, did not end the trouble," the director continued. "Although Andrew formally agreed to the plan, he hasn't been willing to go along with it in practice and has just kept all the sales problems to himself. In addition, there is always the bone of contention as to whose sons will get what jobs in the firm. Both James and David have a number of

boys whom they want to bring in, but they can't agree where to put them and how fast to advance them."

In the opinion of the outside director, the succession problems of the Baitsell Company were far from over. He believed James was actually the stronger member of the family group, and yet the other factions would not accept him. David Baitsell, while honest and sincere, was having difficulty in getting the organization to pull together.

In the Baitsell case, disagreements among various branches of one family caused problems in working out arrangements for succession. Where several families jointly own a business, the same problems are likely to arise. Such was the case in the Howell-Burns Corporation.

Mr. Howell and Mr. Burns were both engineers who had invented an industrial fastening machine and who had built up a company to manufacture and sell the product. During the lifetime of Mr. Howell, he handled the office and sales work and Mr. Burns all the manufacturing operations.

When Mr. Howell died in 1950, Mr. Burns tried to get Mrs. Howell to agree to some sort of arrangement for carrying on the management of the firm. He suggested that the company bring in a general manager to assist him, but Mrs. Howell rejected that proposal. She counterattacked with a proposal whereby her son, who had worked for the company for several years, would take on that job. In Mr. Burns' judgment young Howell had limited management ability, and he therefore refused to go along with that plan.

In 1952 Mr. Burns himself suffered a stroke, which he attributed in part to his continual arguments with his former partner's widow. A permanent top management working setup had still not been worked out, and Mr. Burns was somewhat doubtful as to future prospects for such an arrangement. Mr. Burns was looking forward to his own retirement within a period of a few years and had concluded that sale of the company offered the only escape out of the succession impasse. He did not wish to have his estate tied up with the firm, unless the two families could agree on successor management, and he did not believe that such an arrangement could be worked out.

Family ownership typically becomes more and more dispersed as each succeeding generation passes, and hosts of family claimants for the throne arise. Widows, surviving brothers and sisters, and in-laws come to have a greater say as to who should take over. Thus, we often have the spectacle of successor management being decided by rival factions backing favorite sons or sons-in-law. The process is one designed to bring grey hairs to all participants.

Developing the Boss's Son

Management development is not a simple matter in any small firm, as we attempted to show in Chapter VII. In family firms the task is further complicated by the fact that manager and trainee are related, often as father and son. Little attention has been given to the special problems this can cause. Indeed the life of the boss's son is often depicted as indolent and pampered, while the problems of a father faced with the job of teaching his own son are hardly recognized at all.

We have already touched upon the problem of the son forced to enter the family business by pressure from his father, even though his tastes and abilities lie elsewhere. A further case in point is the Charter Rug Company, a family business which had been founded in the early 1920's by Mr. Samuel Charter.

Mr. Parker, legal counsel to the company, was concerned over Mr. Charter's efforts in bringing along his two sons as future managers of the company. He stated that Mr. Charter had never been willing to consider the fact that the boys might not want to come with Charter Rug. "Since they were youngsters, he has been telling them that their future is with the business. He has told them and his friends that his younger boy has all the makings of a good sales manager, while the older boy will step right into his shoes. That may well be the case, but I'm not at all sure the boys see that making and selling rugs can be a creative and worthwhile life."

"The old man looks at all the sweat and toil that has gone into building up the company and tells the boys how lucky

they are to be able to step into a ready-made opportunity. But the boys don't quite see it that way. The older one graduated from a midwestern college and has been working out there for about a year. I'm not sure how long he will stick it out. I think he wants to strike out on his own in a job in which he sees challenge and interest; he doesn't like to shoot ducks in a barrel."

The success of Mr. Charter's efforts to develop his sons as his successors remains in serious doubt. In applying a continuing pressure on the boys to come into the business, he had not given them an opportunity to make up their own minds as to what their careers might be. Moreover, in cutting out not only their careers but their paths of advancement through his company, Mr. Charter had taken much of the challenge out of his sons' lives. It is difficult to develop executive abilities when these conditions are present.

Another problem of developing executive talent in the small family firm stems from the relationship between the family heir apparent and the rest of the organization. Since the nonfamily employees know that the son will inevitably reach the top, the boy is often regarded with suspicion and perhaps even with envy. If the family manager recognizes these possibilities and guards against them, he can do much to ease his son's relationships with the rest of the organization. Unfortunately, this is often not done, as the experience of the Grace Company illustrates.

Mr. Grace hoped that his son would succeed him as president of a family firm which manufactured silver hollow-ware. Mr. Grace had started out in the silverware business as an apprentice and had eventually founded a company of his own. He had been able to attract to his employ some of the best original design men in the trade, and company products enjoyed an excellent reputation.

When his son graduated from college, Mr. Grace suggested that he start out in the shop working under an elderly craftsman-designer. Young Grace did not wish to do this, feeling that his formal training had prepared him for a management position. Subsequently he was put in as personnel manager of the company. Later, at his request, young Grace was

made a vice president, heretofore a title reserved only for older and experienced executives.

Young Grace's relationships with other executives were often strained. The older managers did not appreciate his suggestions for revising procedures which they had developed over the years. They commented that if he had started "in the grease" as they had, he might have been better prepared to give them advice. Relations between the son and non-family members of management reached such a point that the latter approached Mr. Grace, Sr., and asked him to take action. It was years before moderately satisfactory relationships were restored between young Mr. Grace and other company executives; some of the damage could never be repaired.

When an owner brings his son into the business, he signals to his organization that his successor has been chosen. In so doing, he creates some difficult problems of acceptance for his son. The newcomer must be able to prove his ability to the other executives and win their confidence. In their eyes, at least, he is on trial. Although he has the legal authority of name and future ownership, he must earn the real authority which comes from the respect of his associates, and their willingness to work cooperatively with him. The father can appoint his son to office, but he cannot force acceptance by the organization.

All the natural questions as to whether the boss's son "has the stuff" are made more critical when the father promotes his son rapidly to a top position. The understandable wish of the father to advance his son as fast as possible is sometimes at variance with the needs for giving the boy a grass roots knowledge of the business and for giving the organization time to appraise his character before he reaches a top position. In any firm, a new manager must face the problems of winning acceptance, but in the family firm such problems are especially acute since future top management comes in, not on the basis of having earned the post, but rather because of birth and ownership. For this reason it behooves the family manager to think carefully about how to introduce his family successor to the business.

The problem of executive development in the family firm is further complicated by the fact that typically the father must assume the role of coach to his own son. It is not the purpose of this study to deal with the complex issue of parent-child relationships. We would, however, like to point out some of the difficulties which arise when a father tries to train his sons to be executives in his business. The Kelly Company provides an example.

Mr. Kelly, president and treasurer of his own company, had planned to make his son and son-in-law president and vice president respectively of the family business upon his retirement. With this object in mind, he had brought the two young men into his firm as soon as they completed college. He gradually brought them up through the ranks of production and sales, making them his assistants in charge of these divisions before finally placing them over the business.

One of Mr. Kelly's sons, in describing the situation, stated that his father had come up the hard way, had learned certain "lessons," and wanted to make sure that his sons ran the company just as he did. "I guess I had all the usual growing pains of any youngster moving up the ladder plus some special ones," young Kelly stated. "Dad is a very determined guy, and is pretty set in his ways. He has run a successful business and doesn't really want things changed around. I know some things should be changed, but to do it, I have to tell Dad off and hurt his pride. That's something I don't want to do unless I have to.

"Moreover, when it's your Dad bringing you up the organizational ladder, you spend a good many years 'looking up' to him. Then comes the day when you want to quit looking up and look him straight in the eye on an equal-to-equal basis. That doesn't come easy. Dad officially put me in charge in 1945, but for three years after that he kept poking into this problem and that and getting my men all disturbed. I finally had it out with him. Either I was grown up and ready to run the business or not. He backed down and I haven't had too much trouble since that date.

"Another thing which has bothered me a good bit is that I've felt I had to live up to the old man's reputation. You

know he had done an outstanding job here, and I wanted to make sure I did as well. At first I used to imitate him in the way he did things, for example, working with the foreman. But I eventually found out I had to do things my own way. I got over a big hurdle when I finally decided to be myself and not a junior edition of Dad."

The son's problems in getting himself accepted as an equal by his father, in winning independence to work in his own way, are no greater than the father's difficulties in developing his own son. When the father has worked with his son for some time, he sooner or later must face up to the question: "Does my son have the potentiality to run this business?" It is far from easy for a father to judge objectively whether his son has top management ability. The Ball Company illustrates this problem.

Mr. Ball, Sr., had managed the company since its incorporation and in 1953 was planning to turn over the direction of the firm to his son Bill. Mr. Madden, a friend of the Ball family for many years, was disturbed about succession prospects for the Ball concern. "I'm not sure whether or not Mr. Ball realizes that his son just doesn't have the stuff. He keeps saying that Bill will do an even better job of running things than he has, but there isn't much evidence to support that point of view. Bill has been there 10 years and has done very little. None of the staff want to say very much and least of all to the old man or Bill. As one of them told me: 'Who in the devil wants to correct your future boss?' I wish there were some way of getting Mr. Ball, Sr., to really look at this without his rose-colored glasses. If he goes ahead with this, the senior officer of the company has told me he is going to quit."

Executive development is especially difficult in a family firm because here the top manager and his successor are often related as father and son. The son may be forced for sentimental reasons to embark on a career in the family firm for which he has no taste or talent. The rest of the company organization may resent a crown prince whose claims are based on birth and ownership rather than on merit. The son may have problems in winning and asserting his independence from a father long accustomed to directing and

advising. Finally, the father's judgment of his son's potentiality may be so biased that a questionable choice of a leader results.

What Some Companies Have Done

Some family firms have taken action to minimize their problems with management succession. In these firms the owner-managers have been willing to accept some limitations on family prerogatives in order to obtain a stronger management organization. Such action, when taken, has often turned out to be in the best interests of the family, the firm, and the employees.

One company which took such action was the Webster Corporation. Mr. Webster had managed the family business since the retirement of his father in the early 1920's. During his father's regime, he explained, the Webster Corporation had been used as a sort of private family employment agency, and many family members held jobs throughout the organization. The price of such a policy, said Mr. Webster, was failure of the company to forge ahead as fast as other members of the industry.

When Mr. Webster took over as president, he introduced a policy of limiting family employment by the company. With respect to family members already in the firm, where necessary he moved them to positions they could handle, even if this meant changes in their titles and salaries. When hiring members of the family Mr. Webster reviewed each candidate in an attempt to judge whether the family applicant could or could not pull his own weight. This had resulted in the refusal of a job to one of Mr. Webster's brothers-in-law; in another instance, a clerical rather than an administrative post had been offered to the son of a brother. Where a family member showed promise and was willing to work, Mr. Webster was glad to use his services; one of his brothers headed up all the company's sales activities.

Mr. Webster commented that the real test of his policy lay ahead. "My son is completing his military service, and when he comes back I know he wants to go to work here. I've made arrangements for him to start out in the engineering

section. If he does all right, he will head up the company some day, but he will have to do it on merit. Just to make sure, I have discussed this question with both my lawyer and my board. I'm going to abide by their judgment as to whether or not he has the stuff. If he doesn't pan out, he won't stay here. There are lots of places for engineers these days, and he will have to build a career some place else."

Mr. Webster's policy of limiting the number of family members in management had been accompanied by an equal emphasis on attracting outside management talent. Mr. Webster had opened up top positions to nonfamily men and had been successful in attracting a treasurer, a chief engineer, and a production superintendent. He had gone further by setting up a management council which brought the two Webster brothers together with the three nonfamily members of the team. At these meetings Mr. Webster discussed freely all the problems of the company, including information about profit and loss and the financial picture.

Mr. Webster stated that he had made every effort to make the nonfamily executives feel that they had a substantial stake in the company. All, for example, were participants in a liberal profit-sharing plan. Mr. Webster had also discussed with his executive group the question of his son and the future leadership of the company. The results of Mr. Webster's program had been to strengthen substantially the executive group and to increase his company's ability to deal with management succession.

Mr. Webster described another firm which had also limited family prerogatives in the interest of promoting company well-being. This was an enterprise owned by five brothers, each of whom was blessed with several sons and daughters. Alarmed at the prospect of having their company overwhelmed by a deluge of sons and sons-in-law, the brothers had agreed to a novel plan for solving this problem. Each brother was allowed to bring in as many members of his immediate family as he chose, but he would have to pay their salaries out of his own pocket.

In another company studied, the limitation of family prerogatives had been carried even further and a policy of em-

ploying no relatives was adopted. This extreme rule would result eventually in separating ownership and management entirely. In the more typical situations, families have tried to limit but not eliminate family dominance of company affairs.

A second approach to the succession problem was followed by some of the family managers observed. This approach involved giving special attention to the problems of developing administrative skills in members entering the company. Also it involved introducing such persons to the firm in a manner calculated not to undermine their acceptance by the rest of the management group. One enterprise using this approach was the Riverside Food Products Company, a processor of dry breakfast cereals.

The Riverside Company was managed by Mr. Adam Kautz, son of the company's founder. Mr. Kautz believed that his father had taken several steps which had helped him to take over as general manager under the best possible circumstances. In turn, he was trying to do what he could to develop his own sons as the future managers of the company.

Mr. Kautz stated that he believed he had started to prepare his boys for this as soon as they were old enough to come down to the office on Saturdays. Mr. Kautz encouraged his boys to spend their spare time with him at the plant and to accompany him on selling trips. While driving from town to town, he could talk with the boys about what he did and what he was trying to do for the company.

Mr. Kautz had been especially careful to avoid pressuring his sons to join the business. He discussed with them the advantages and disadvantages of staying with the family company. When the eldest son decided that journalism was his real interest, Mr. Kautz helped him to get started as a reporter.

Two of the Kautz boys decided to come into the business under the conditions laid down by their father. They were put to work in the company's grain processing division. Mr. Kautz stated that while he couldn't and didn't want to hide the fact that they were the boss's sons, he took every precaution to avoid giving them any special favors.

As the years went by and the boys worked up into first-line supervisory positions, Mr. Kautz began to hold informal

meetings to acquaint them with some of the company's problems and to secure their opinions on these questions. He also began to give some over-all company problems to a group of young supervisors which included the two Kautz boys. "My point of view in all these meetings was to approach the boys and the other younger supervisors on a basis of seeking their help and of taking their suggestions whenever I possibly could. I think we have made a great deal of progress."

Mr. Kautz believed it was still too early to judge the success of his program for developing his sons. He did have evidence to indicate that the boys were well respected and accepted by other members of the organization. In continuing his program, he was planning to turn over all purchasing operations to one son during the coming year and, at the same time, was planning to promote another young man in the organization to fill the position of treasurer. Both promotions were to fill positions left vacant by retirements.

In the Riverside Company, and in some others, we saw managers who had overcome some of the obstacles which confront a chief executive who aims to train his sons as his successor. This objective is best served by encouraging rather than forcing participation in the company, and by trying to point up the challenge in the work rather than by laying out a cut and dried approach to top management positions. Also helpful is a policy of working closely with all the younger members of management in an effort to develop a strong over-all management organization, and of letting the sons work up through the organization so that they can gain the knowledge which comes with doing a job, along with the respect of their associates, who can see that the boss's sons are "not so bad."

In both the Webster and Riverside Companies, the family manager was aided in his task of working on succession by outside counsel. In the Webster case, Mr. Webster's efforts to limit family participation in management were continued because of the very real support of outside counsel. In the Riverside case, Mr. Kautz used his board to help give him an objective picture of the progress of his management organization and of the capabilities of his sons as future managers of the company.

Summary

When family affairs and a business enterprise become intertwined, some possible conflicts of interest may arise. What the family wants may not be in the best interests of the company. There can be too much family in a business, and some limitation on family participation in management may be helpful.

In most cases family managers sooner or later require the assistance of outside talent to run the business; in the long run this is inevitable as management and ownership gradually separate. Where family management is willing to use outside help, the long-run strength of the enterprise is increased.

Finally, in the small family concern the selection of future management is largely determined by birth and ownership. These factors do not eliminate the need for developing the future manager into an effective company head. The family firm faces some very real problems in developing replacement management within its own ranks. Unless these considerations are recognized and given special attention, the future of the company may be seriously weakened.

CHAPTER XI

Business Policies and Small Company Management

THE SMALL businessman usually does not consider himself as a policy-making executive, nor does he give much thought to what his company policies are or how they have been developed. He typically runs his company on the basis of handling individual problems as they arise and is little concerned about the impact of an individual decision on whatever policies his company may have. Policies to him are often something which big company executives talk about but which, after all, are not the concern of the small businessman.

As opposed to this point of view, we suggest that business policies are of major importance to a company, whether it is large or small, although the manner in which these policies are likely to originate, the amount of top management attention and study given to them, and the extent to which they are formalized differ greatly, depending on the size of the company.

What is a "policy"? When we asked this question of some small company executives, they answered in terms such as: "Policy in this company is the way I call the shots"; or "Policy equals me"; or "Policy in this company is anything that involves much money, important customers, or a change from the way we used to do the job." Our study of small company management would lead us to define policy as accepted guide lines for action which help subordinate managers and employees to carry on their work in harmony with the work of other operations of the company and in conformity with the over-all goals of the business.

Business policies are an essential managerial device for helping a group of people to work together as an organization to achieve common goals. They are a tool by which top management obtains a consistent pattern of action from all members of the organization. Policies provide a way of com-

municating the top manager's thinking to all levels of supervision, to company employees as well as to suppliers, customers, and the general public. They permit the organization to handle problems and make decisions which otherwise would have to be considered by an overburdened top manager.

Whether an enterprise is large or small, the function of policy making and administration is an integral part of the top manager's job. The small businessman who has developed policy skills can comprehend the significance of existing policies, whether implicit or explicit, and can sense when these established policies will be affected by an immediate decision or when new precedents for future action are being established by a decision on a current problem. He develops the ability to separate out from his daily flow of work, for special consideration, problems and questions of a policy nature. Unfortunately, such policy skills are not commonly found among small company managers.

This chapter will consider several aspects of the policy function in small companies. The questions we will try to cover include: First, what is the small businessman's interpretation of his role as a policy maker? Second, what characterizes the making and administration of policy in the small company? How do these characteristics affect the small firm's efforts to prepare for management succession, the top manager's job, and the over-all operation of the firm? Finally, what are some of the opportunities for improving considerations of policy in the small company?

"*Seat-of-the-Pants Administration*"

When talking about the way they ran their companies, small businessmen frequently summarized by saying: "I run this company by the seat of my pants." In using this phrase, all executives did not, of course, mean the same thing, but some common characteristics were noted in the companies so administered.

First, such companies are heavily dependent upon the talent of one man. There is a very close relationship between "one-man shows" and "seat-of-the-pants" management. In

these companies much of the firm's ability to compete depends on the top manager's ability to do a variety of jobs in a satisfactory way and one or two jobs, such as selling and styling, for example, very well. Second, in such companies the top executive is heavily involved in the detail of the business. Often he is the sales manager as well as chief salesman, or shop boss and head foreman. He keeps in close touch with many of the detailed operating results of the company, usually by personal observation. Third, "seat-of-the-pants" administration is "management on the run." The chief executive's office is wherever he happens to be. Under the pressure of competition he often spends one hour working to get a shipment out and the next hour trying to hire a new packing room foreman. It is the unusual small businessman who sits down and takes several hours to plan ahead for the coming month or year. Finally, such an administrative pattern rests heavily on the intuitive operating skills of the boss. He may find it difficult to tell you why he bought or sold on a particular day, but it usually turns out to be a wise move. It has to be, for if he "misses" many times, he may be out of business. These intuitive decisions of the small businessman and the operating practices which follow from them are rarely subject to any amount of personal or outside review. He sells to distributors, for example, because "that's the way I figured we could get into this game," or "We won't give quantity discounts because they don't really bring in very much more business." A sense for the situation rather than a thorough analysis of it is his forte.

Under this sort of management the small businessman makes little if any effort to evaluate what his company's policies or operating rules of thumb are, whether they are currently valid, or whether they should be reviewed and changed. It is fair to say that although the small businessman runs his company by the seat of his pants, he often doesn't know what is in the seat of his pants. In our judgment, one of the major weaknesses of small company management is its failure to give attention to the importance and usefulness of business policies.

Although the small businessman gives little recognition to the role and importance of policies to his company, they are

present wherever a business organization exists. The small company, for example, is often one of many in an industry, and the manager must have some ideas as to how he is going to compete and live in such a situation. Implicitly or explicitly he has some ideas about what kind of services he can best perform and what niche in the industry he can best fill. Moreover, he does have some accepted business practices which are in keeping with the type of service he wants to sell and the type of trade he wants to attract. He will make for order or make for stock. He will sell directly to retailers or will sell only through wholesalers. Wherever questions such as these are being answered and reanswered, the small businessman is dealing with policy, although he may not recognize this fact. While the small businessman does not consider himself as a maker of policies and gives little recognition to their importance, policy formulation and administration is an important part of small company management.

Business Policies and Small Company Management

Policy frequently derives from a consideration or nonconsideration of the implications of a decision on a new and perhaps seemingly isolated problem when it arises. Perhaps the most important aspect of policy making in the small firm is the typical failure of small business managers to see the policy significance of questions which they are considering or on which action is being taken. Little attention is given to separating out policy questions from the flow of operating problems with which the top manager must deal. Buried in countless decisions, such as whether to pay shipping charges to far western customers, lies the policy question of whether the company should establish branch warehouses. Behind the individual question of vacation time and dates which come up to be handled on their respective merits lies the policy question of how much time off various members of the organization should have and at what time. The small businessman often does not have the administrative skill necessary to separate policy questions, which involve future implications and obligations, from the mass of daily operating decisions of the company. As a result, policy decisions, establishing

precedents for future action, are handled in the same way as a routine operating question. Decisions are made on a "hand-to-mouth" basis in order to take care of immediate pressures. Little analysis is carried on to see whether basic questions of objective are raised by the particular problems at hand, or to appraise the effect of a current decision on future questions of the same nature.

One example of this sort of hand-to-mouth policy making involved the Volland Company, a small manufacturer of specialty food products which were distributed through independent grocery stores. As competition returned in the postwar years, the salesmen began to submit tentative orders which would be approved by the customer only if an advertising allowance, amounting to 5% of the order, was allowed. Mr. Volland handled each request on the basis of individual customer relationships and the need for factory volume. Over a period of years, however, the individual actions cumulated, and the trade came to understand that the policy of the Volland Company was to give 5% advertising allowances, something which the firm had never intended.

Mr. Volland, in discussing the current situation, commented that the critical moment had occurred when he first gave the discount to a larger store. "If I had taken the time to think through what such a move might get us in for, I never would have done it. But I was busy, we needed the business, and it didn't seem like too important a step at the time. Now in effect we have cut our margins by 5%. Everybody expects to get what was originally a special deal."

Perhaps what was even more significant for the long-run future of the business was the fact that the 5% concession reflected a basic weakness in the Volland Company's ability to compete in the food trade. Mr. Volland, in starting out to give the discount, had not pushed into the reasons why this action was necessary. He had handled the question of advertising allowances as a problem in itself without examining the basic question behind this symptom of trouble. Mr. Volland had been so busy in the detail of running his business that he dealt with the question of allowances for advertising without considering what the policy implications of this deci-

sion would be on future action of his company. He did not have the ability to separate out questions of a policy nature from the usual run-of-the-mill operating questions. The result was that routine operating questions and problems which embraced policy considerations were treated alike. In this case the results were costly to the Volland Company.

A second characteristic of policy making and administration in the small firm is that both functions are largely centered in the same person. As a company grows, there is an increasing tendency for the formulation of policy to be handled by the board of directors and top management, while the actual administration of policy is handled by the company organization. While precedents established by day-to-day decisions are important policy determinants in companies of every size, in large concerns some formalized policy making is carried out at top levels by people not charged primarily with operating responsibilities.

In a small concern where the top manager occupies a dual position, he not only decides upon the company's course of action but frequently plays an important role in carrying out his own decisions. The top manager as chief executive of the company as well as production superintendent can decide that the shop is to be scheduled on a job basis and proceed to put the recommendation into effect. In the small organization major policy changes can be decided and put into effect without the review of any disinterested party.

Finally, in the small firm company policies are rarely made explicit. Infrequently a small company may have some procedural manuals, but this is as close as most of them come to making key policies explicit. In most cases the organization knows some of the "guide lines" which the top manager wants them to follow, for without these instructions they could not function as an organization. But other policies remain in an uncertain status with only the top manager knowing what he wants done and why. In many cases the top manager himself has not taken the time really to think through how he runs the company. Whatever the company policies are, they remain obscure and confused to the organization and sometimes even to the top man.

Policy formulation and administration in the small firm, then, is characterized by a lack of conscious planning. A small company has policies and uses them because it cannot function as an organization without such guides for action. But the business policies of a small company are almost entirely established by precedent. Management makes little effort to distinguish between action of a policy nature and normal run-of-the-mill operating questions, so policies always remain implicit and subject to little review. The small businessman's heavy involvement in the detail of day-to-day problems, his lack of skill at building and using an organization, and his relative ineffectiveness in working with long-range plans and objectives make it especially difficult for him to learn to work with and utilize policies as a management tool.

Of what importance is the small businessman's customary inattention to business policies and their development? It certainly does not mean that he cannot run a profitable and useful enterprise. But it does influence his company's ability to provide for long-run continuity of management, and it largely conditions the way in which the top manager runs his company. In addition, failure to review policy actions has brought serious financial and operating problems to some small concerns.

Business Policies and Management Succession

The small businessman's customary lack of interest in policy matters affects his company's ability to survive beyond the life of any single leader. We have noted in previous chapters some of the things which small firms can do in order to provide for future management when it is needed. The small businessman can also contribute to the stability of his enterprise if he takes steps to make sure that his successor and his entire organization clearly understand what company policies are and why they were adopted. As part of the process of grooming a successor, the small businessman can also help the new leader to develop skills in sensing the policy implications of his day-to-day decisions.

In the usual small company situation, where one man or several executives are in control, these executives have developed a "feel for the business." The top manager, for example, knows intuitively what abilities his organization has, what plans for action are most likely to succeed in a given situation, and what action should be taken to meet a variety of problems. He knows from trial and error which activities his company must perform effectively in order to stay in business. Unfortunately, his intuitive knowledge is not automatically transferred to his successor, even through the latter may have worked with the retiring executive for a period of time.

The retiring executive can increase his company's chances for survival if he is willing to take the time to clarify what the major policies of the company for himself and for his successor are and to explain how they tie in with the way the company operates. Such a course of action is not designed to make a more effective operator out of the retiring manager. In fact, by taking the time to think through what company policies are and how they developed, he may be limiting somewhat his immediate effectiveness as a boss. From the point of view of helping his successor "learn the ropes," however, such action can be invaluable. The contrasting cases of the Medical Supplies Company, where such action was not taken, and of the Lampe Company, where it was, are illustrative.

The Medical Supplies Company was a small concern which had been managed by Mr. Kay for over 50 years. During that time he had built sales up to the $1 million mark, largely on the basis of a sales force which established close relationships with the medical profession and by maintaining a reputation as a quality house which never made anything but the best steel instruments.

Mr. Kay made no special plans for succession, assuming that his son, who had done creditable work in the major departments of the company, would be able to succeed him. When Mr. Kay retired in 1948, he left a prosperous company with excellent production facilities and a capable organization. Company profits during the next four years, however, declined steadily.

In commenting on the situation, a consultant stated that the son had never really understood what basic policies of the company had been responsible for its success. Mr. Kay, Sr., had built up a sales organization which had had a very narrow line to sell to doctors, so that each salesman knew each product well. The son had changed this policy and had lengthened the line to a point where sales effectiveness was reduced. In an effort to expand the line rapidly, the son had branched out beyond metal instruments to a variety of expendable items which required many different materials for their manufacture. One result was that the production department, which had been geared to one type of manufacturing process, had great difficulty in learning how to handle several such processes. Furthermore, in his effort to expand rapidly, products were introduced before all the "bugs" had been worked out. The result was a loss of customer good will, and the company's reputation suffered.

"I'm not sure that old man Kay had ever sat down and tried to line up why this outfit had been so profitable," the consultant continued, "but as I saw it, the pay-off policies had been to turn out a quality item, have salesmen sell a line small enough so that they really knew what it was they were selling, and finally to stick with metal items that the old fellows in the shop could handle. Moreover, the old man kept the company small enough so that it didn't need a lot of fancy and expensive accounting and records. The son just missed seeing that these policies were critical for the company's success and set out on a new course of action which abandoned many of them. It isn't that Kay, Jr., isn't capable either. He had done some creditable work in the company before taking over, but he evidently had never really thought through what the basic concepts of this company were and why they were important."

The senior Mr. Kay had not taken the time to make explicit what the policies of his company were, although they had formed the framework for his company operations for years. Although the son had worked in his father's plant as a salesman and had headed the development laboratory, he still had not assimilated these company policies or seen their

relationship to company success. His policy of expansion had resulted in sales going up every year while profits declined.

In contrast is the case of the Lampe Wax Company, a small producer of high-quality floor wax. Mr. Lampe's program for bringing along his successor, while unorthodox, does illustrate what can be done to limit succession problems by making key company policies so explicit that successor management has a clear picture of what these policies are and why they were adopted.

Mr. Lampe had left the employ of a large company to found his own firm in 1915. Some 30 years later he began to make plans for his retirement by hiring several younger executives from other concerns. In an effort to acquaint these men with the company, Mr. Lampe spent considerable time discussing with them the principles on which he believed the success of his company rested. "In doing this," Mr. Lampe stated, "I was forced to go back over my 30 years here, trying to decide what our policies were and why. It's not an easy job, but it did help me in better understanding what we had been doing over the years. Furthermore, in talking over the policies with the new men, we raised some critical questions about some of them, and there will be some changes made."

Mr. Lampe's program of putting down the policies of the company in black and white was not done with the purpose of developing an "operating Bible." Rather it was done with the hope that new management would have a chance to learn about past policies and to appraise their worth by watching them in operation.

Mr. Lampe's work in providing for succession was successful. When he retired, new management was ready to take over. The new president commented that Mr. Lampe's policy work with him had been most helpful, and he cited as evidence a recent decision he had made on purchasing. The Lampe Company had followed a policy of never buying more than a short-term supply of the raw materials used in the manufacture of wax. Soon after the new president took over, a raw materials supplier had offered him a very advantageous offer if he would commit himself to a larger order. Although

the company could have financed the larger purchase, he remembered Mr. Lampe's explanation of the 1921 and 1933 situations and why the short-term buying policy had been adopted.

The Lampe Company's new president commented further that his predecessor's willingness to point up company policies and discuss them had also helped him in his day-to-day running of the company. "In my own mind I decided what were the things that needed to be watched here, and whenever something of that nature comes along, I watch it like a hawk."

In making the small firm's policies explicit and in separating them out from the mass of company practice and procedure, a retiring executive can help his successor. In the Medical Supplies case, the young Mr. Kay's failure to understand what the basic policies of the company were resulted in a serious crisis for the business. In the Lampe case, the willingness of the outgoing leader to make company policies explicit gave his successor a chance to learn a great deal about his future job. It helped to make certain that successor management had the benefit of retiring management's experience in working out policies and knew the reasons for them. Finally, as a step in training successor management, it helped new management to gain an understanding of what company operations were most important and what daily decisions should be watched most closely. In our judgment, so far as succession is concerned, if a prospective successor comprehends the implications of existing policies and can be made aware of their significance to decisions on new problems as they arise, then the major task of his training has been completed.

Policy Making and the Top Manager's Job

In the Lampe Wax Company the retiring president put down in black and white the policies which had developed during his administration of the company. In most cases it is asking too much of the small businessman to suggest that he draw up formal statements of company policy. But without going to such an extreme, the small company manager can

profitably devote more attention to the policies of his company and his own role as a "policy maker." In this study we observed some small businessmen who had simplified their own jobs and who had improved their capabilities as managers by such action.

A director of a small Chicago concern reported that the president of the company had complained to him that his work load had been steadily increasing as his company expanded. The president was uncertain of his own abilities to continue to carry his increased responsibilities and had asked the director for help. After spending several days with the president, the director observed that a good part of the president's day was taken up with questions involving priority of orders in the shop and sales terms under which the company's products were sold to various types and sizes of distributors.

The director worked with the president in drawing up some rules of thumb for the organization to follow in handling such questions. He also talked with the head shop foreman and the sales manager about the rough limits of their authority to decide these issues. The result was a substantial drop in the daily operating decisions which the chief executive had to make, enabling him to handle his other responsibilities more effectively.

Another illustration is found in the experience of the Whetstone Manufacturing Company. Mr. Whetstone, its founder and manager, became interested in outlining his own company's policies after reading about the work done by big business in this area and the results which large firms had obtained from such efforts. With the help of a business associate, Mr. Whetstone outlined what he considered to be the objectives of his company, his general operating policies in support of those objectives, and some key procedures as well.

This procedure brought some tangible benefits to Mr. Whetstone. He reported that in his daily running of the company he had become more conscious of the importance of operating questions which in some way affected its established policies. "It helped me," he said, "in determining what I should really worry about and what problems deserved less

attention or could be handled by somebody else. A case in point involves a question which just came up today . . . whether or not to make a machine for another trade. The shop people said we could make it, and several companies have inquired about buying it, so there seems to be a pretty good market. But I'm thinking long and hard on this one. We have always sold machines on the basis that the owner is responsible for servicing. If we go into this new line, I find we would have to take on that obligation. I don't think we will try it."

Mr. Whetstone referred to another incident in which he was asked by his shop superintendent to grant an extra long vacation with pay to a senior employee of the company. "The request itself didn't amount to much in dollar terms," Mr. Whetstone stated, "but if we gave the concession, we in effect opened the door for many other such requests. I denied the request and solved the senior employee's financial problem by other action."

Mr. Whetstone's interest in bringing policies out in the open paid off, for it enabled him to increase his own effectiveness as a manager. In his case a clarification of company policies helped him to devote more attention to critical areas. As he put it, "It helped me to learn what questions I should worry about." Mr. Whetstone's attention to policy considerations also improved his ability to see the policy implications of this day-to-day activity, a significant factor in small company administration, where most policies are established through the precedent of management action.

There is also an important relationship between the growth of a small enterprise and the need for managerial attention to policy. Growth brings a trend toward more formalized and explicit statements of company policy. As a company grows, we noted that its management begins to put down some rough policy formulations. Often these are called manuals of operation and contain a mixture of policy pronouncements along with statements about routine operating procedures. They are useful, however, in giving the entire organization some idea of the company's ground rules. Second, we observed that growth is accompanied by a change in the top manager's

role; there is a shift of emphasis away from his operating responsibilities and in the direction of giving more time to the new and unfamiliar job of policy development and review. This change in role is often accompanied by difficulties and in some cases can never be achieved. Finally, growth often brings an opportunity for the chief executive to give more time to the task of planning for the future. In discussing this development, one small businessman noted that his company had grown to the size where he could get out of selling and spend his time worrying about where his company was going and how it could compete with larger manufacturers. "I'm trying to do the hardest thing I've ever tackled," he said, "learning how to plan three months in advance. I've never done that before." When top management begins to concentrate on major questions of policy, it has a powerful incentive to increase its long-run company planning.

Since the top manager's job in a small company will always carry with it a heavy participation in day-to-day activities, there are real limits to the amount of attention which will be given to company policies. As the company grows, however, and the top manager backs away from complete involvement in detail operating questions, he can and sometimes does devote more attention to what company policies are and what his own responsibility for them is. But even in the average situation, where the small businessman is heavily involved in detail operation, some attention to policy can be helpful, both in easing the work load on the executive's own shoulders and in helping him to devote more time to the critical areas of company operation.

A Failure to Review

In the typical small firm where the top manager makes many of the operating decisions and personally carries them through, company policies are usually not clearly stated and are seldom subject to critical scrutiny. In some cases studied, this had resulted in serious trouble for the firm. The Barker, Fox, and Smart Set Companies provide three illustrative cases.

The Barker Chocolate Company had for many years manufactured a quality line of candy, which was sold to drug and department stores on the Pacific Coast under the company's own label. Shortly after World War II, however, Mr. Barker decided that there was no reason why his company should let the retailers continue to make large profits selling candy on which he made only a slight manufacturing profit. Subsequently he decided to go into the retail candy store business in the San Francisco Bay area.

Over a period of two years he opened up about a dozen Barker Candy Shoppes. Candy supplies at that time were in semishort supply, and this factor plus the excellence of the candy itself enabled the stores to achieve profitable operations in a short period of time.

The original success of the stores, however, was not long lasting. As competition returned to retail candy selling, Mr. Barker found his company in serious difficulty. He had signed long-term leases for expensive sales locations, and these fixed expenses constituted a serious burden when sales volume began to drop. Profits soon turned into losses. There was no one in the company with retailing experience, and Mr. Barker could not keep up with the pace of running both the manufacturing and selling operations. Within a five-year period the firm was forced to liquidate.

Mr. Barker's decision to abandon his traditional policy of being a manufacturing specialist in favor of entering the retail sales field had been a personal choice. As majority stockholder he could change the direction of company effort without the benefit of any review. His failure to think through all the implications of this policy decision cost him his company and much of his personal fortune.

In the case of the T. S. Fox Company, a major change in company policy resulted not from one key decision, as was the case in the Barker Company, but rather from the cumulative impact of a series of operating decisions over a period of years.

The Fox Company had originally specialized in the manufacture of simple stamped metal pieces. Its production shop had developed competitive proficiency in the volume production of these parts, and the company was able to underbid its

competitors consistently. Only very simple production scheduling and control were required, and the supervisory organization needed to run the shop was not large. Over a period of years, however, the company gradually added new products, and by 1948 its line included several dozen items which required considerable variation in both manufacturing process and quality control. These products had been added at varying times to meet particular competitive situations and because they held promise of extra profit.

The cumulative result of taking on additional products was a departure from the Fox management's traditional policy of specializing in a few simple items. By widening its line, the company lost its primary competitive advantage, an ability to produce a few parts at a very low cost. It did not have supervisors who could handle a mixture of products at one time; it did not have the necessary production controls or the skilled personnel necessary to schedule and keep track of complicated production orders. Neither did it have the additional engineering talent needed to handle new technical questions.

The Fox management had changed its policy in respect to product line, but the change had not resulted from a conscious effort by management to find a better way of competing. Rather it occurred almost unnoticed as the result of a series of scattered individual decisions to take on new items. It was not until the change had been accomplished that the Fox management realized the impact of these individual decisions on its previous policy. Management had failed to appreciate the need for reviewing the compatibility of these decisions with over-all company strategy and objectives.

A final example of failure to scrutinize policy changes concerns the Smart Set Handbag Company, manufacturers of medium-price ladies' purses. Before World War II the company manufactured unbranded handbags which it sold to jobbers and mail-order houses which, in turn, resold the product under their own brand names. During the postwar years the Smart Set Company, under the leadership of Mr. Thomas, embarked on a program of developing the Smart Set brand and of getting the company's line into leading department stores. In connection with these policy changes, Mr.

Thomas initiated a heavy national advertising program and began to participate in dealer cooperative advertising plans; he also hired a New York stylist to make certain that the company's designs were kept up to date.

Mr. Thomas' change in policy had originally worked out very well. The Smart Set name became very well-known in its price range, and company styling at least equaled that of its competitors. Sales and profits increased, and Mr. Thomas plowed back much of his earnings into an intensified national advertising program.

In 1952, however, the company faced a serious operating and financial crisis. Mr. Thomas had concentrated his attention on the sales and advertising side of the business and had not given equal care to production factors. While the plant was operating under a policy of selling unbranded merchandise on a price basis to the jobber trade, quality considerations were not vital. This situation was materially changed by Mr. Thomas' national advertising program. Retailers expected that Smart Set merchandise would live up to advertised standards and styles, but this was not always so. In one case, a handbag advertised in certain colors and with certain designs had not been manufactured according to specifications, and retailers found that the handbag they received in stock in connection with the advertising campaign bore only a partial resemblance to the advertised product. Moreover, handbags were sometimes shipped out with imperfections which ranged from minor scratches to improperly functioning clasps.

The cumulative result of these difficulties descended upon Smart Set in 1952. Returns for poor quality totaled over $100,000, and company salesmen reported a decided drop in dealer interest in Smart Set products, despite a continuation of the company's advertising program. Mr. Thomas, in changing his company's merchandising policy, had not balanced this with the necessary changes in policies for production and quality control.

Changes in small companies' policies are seldom subjected to a critical review. The results of this are often serious. Where policy changes are intentional, a review could be made

if the top manager is willing and if some source of review is available. More frequently, however, a policy change occurs gradually, as a result of day-to-day decisions on normal operating questions. Unless the small business executive has the skill to sense the effect of his decisions on policy, his company's policies may be changed before he realizes what has happened or how important the change will prove to be.

Some Implications and Opportunities

The small business manager needs to devote more attention to the importance of business policies; he needs to consider the relationship of policy to his own job and to the long-run survival of the company.

The manager can make himself more effective if he understands how to use policies as tools. If they are explicit and the reasons behind them are known, the manager will find them useful aids to his own major decisions and useful guides to the other members of his organization.

This does not mean that when policies are once established, they should always be slavishly followed. Quite the contrary, policies should be subject to constant scrutiny and review in the light of changing conditions and objectives. The need for policy review is always present, and in filling this need, the small company's board of directors can find an opportunity for real and vital service.

Finally, policies can be useful in helping small companies survive through a period of management transition. This brings us back to the question of how to develop small company executives. No program is adequate for this purpose if it gives training only in technical skills, such as selling and production, or know-how about details, such as customer lists or product specifications. The prospective manager must also be aided in developing a sense for the policy implications of his day-to-day decisions. For the small businessman, policy is not an academic subject — rather it is a skill in sensing the policy implications of the problems on his desk today. His traditional route of advancement, up through the ranks, does little in itself toward assisting him to think policywise — to

think through a specific problem to a point where he can see its relationship to sometimes rather nebulous company objectives or to visualize its precedent-making implications. The pressures of the moment and his own involvement in the detail of operations work against this. To the degree that preparation for top management responsibilities includes recognition of the importance of policies and of the executive's own part in making them and working with them, successor management is better prepared to assume its new obligations, and the likelihood of his firm's chances for long-run continuity of operation is increased.

CHAPTER XII

Some Paradoxes of Small Business Management

THIS STUDY has been concerned with the commonplace problem of management succession in small and growing enterprises and with the action small businessmen can take in dealing with this question. Many small concerns give this matter little thought, attributing their inaction to the limitations of small size. Some small businessmen are reluctant even to discuss a problem which they consider essentially morbid. The primary object of this study, however, has been to highlight the substantial advantages which accrue to managers, owners, employees, and to the community at large if small businessmen do take steps to insure successor management.

In the preceding chapters we have discussed a number of approaches to the problem of succession which have helped some companies to deal with it successfully. These various approaches encompassed a wide range. Some were short-run proposals for interim managers; others involved longer-run programs for developing the whole top management group. Some of the approaches emphasized what the incumbent manager could do, by limiting the problems which his successor would inherit and by planning for the orderly retirement of older executives, including himself. Other approaches emphasized the role of outside individuals or groups, such as boards of directors, in giving counsel on succession problems. All the approaches mentioned were observed operating in a wide variety of companies, some of them run by one individual, others by a group; some of the companies were growing vigorously, others just maintaining the status quo.

Despite the wide range of these approaches in timing, point of attack, and type of company situation involved, it is

possible to make some useful generalizations about them. In the first place, we believe that most small firms can do something about providing for succession, although the particular approach applicable in any specific situation depends upon the circumstances prevailing in that company. There is no "one answer" to the problem of succession. Second, we believe that some kind of outside counsel can be helpful in most situations. Outsiders can most readily bring the problem of succession to management's attention, and they can keep attention focused on this issue, so that something constructive will be done about it. Third, we believe that the approaches we have described take into account what the small business manager is and how he runs his company. They recognize the limitations on his efforts to deal with succession, and they do not call for radical departures from his usual manner of operation. Finally, we believe that there is a demonstrable connection between success in dealing with the problem of succession and the factor of company growth. If a company has expanded, this usually means it is stronger in terms of financial and fixed assets; usually it has a larger management group from which a new leader can be drawn and to which he can look for help. Perhaps also it is true that managements which are willing to grow are willing to tackle other thorny projects, such as that of providing for succession. Growth, of course, brings problems, but on balance it usually strengthens a small firm's ability to deal with succession.

Small business has long been a popular area for political action. Today, as for many years, self-designated friends of small business are proposing to establish "watch dog" governmental agencies to protect the "little fellow." Such agencies may serve a purpose, but we believe that the survival of any small firm depends not so much on government action as on the ability of its management. For this reason, anything that can be done to improve management gives the most valuable kind of assistance to the whole small business community.

In this study we have tried to cover only one of many management problems, pointing out what can be done to help small business achieve better leadership through attention to

succession. This is but one aspect of a broader issue which calls for much additional research. We need to know a great deal more about what small business management *is* before offering advice designed to improve it. There is still much to be learned about the nature of management in small and growing enterprises. As proof of this statement we would like to summarize some of the seeming paradoxes uncovered in the course of this study. They suggest to us that many of the notions commonly held about small business are not really valid. Our current preconceptions do not fit all the facts. This being so, it means that the facts need to be freshly and intensively restudied, in order that they may lead us to a better understanding.

Ownership Does Not Always Make for Self-Interest

It is often said that management and ownership cannot be completely divorced if managers are to work wholeheartedly for their companies' success. The idea that ownership promotes the vigorous pursuit of self-interest underlies many of our business arrangements. For example, the influence of this belief is seen when it is urged that directors ought to own substantial shares of stock in the companies they serve. It is seen also in the trend toward instituting stock option plans to whet the zeal of top management groups. Likewise, in the area of small business, company managers often stress a policy of maintaining owner-management because, in their opinions, such arrangements help to insure effective top command.

In the typical small business, however, though owner-management prevails, we do not always find that the dictates of enlightened self-interest are obeyed. Consider the problem of succession; surely the owner-manager would benefit from dealing constructively with this issue. He has many incentives to do so; often he has worked hard for many years under substantial handicaps to build up his company. Usually much of his estate is tied up in the business, and its value as a going concern is heavily dependent upon the abilities of the man who runs it. Yet, paradoxically, despite the fact that it is to their own advantage to make plans for succession, many small businessmen do nothing in this area.

Succession of Management Is Assumed To Be Automatic

The job of an executive in a small concern is a difficult one, a fact which most small business managers will readily admit. In most cases he is an expert in a particular skill, such as selling or manufacturing, with much of the company's competitive strength resting on his abilities. In addition, he must be able to fill a host of other positions, ranging from emergency shipping clerk to labor negotiator. The scope of his decisions is great, covering the purchase of minor items to signing contracts which commit the company in a very substantial way.

Despite this situation, the small businessman assumes that when he steps out, a qualified replacement will be automatically available to fill his shoes. He seems to believe that if a man has been around long enough and has worked out as a subordinate, he is therefore capable of managing the company.

As many of the cases cited in this study show, such a hopeful assumption is invalid, and the manager who enters unprepared upon his duties has a far from easy time. Yet this obvious lesson seems difficult to learn, even when taught by the powerful voice of experience. We have seen managers sorely handicapped themselves through lack of preparation for their jobs, who yet were doing nothing to prepare their successors.

Requirements for Success Conflict

Many small companies are started on the proverbial "shoe string" without adequate resources or much investigation of difficulties liable to be encountered. In many cases small concerns are born because enterprisers with ample self-confidence take a chance, go ahead, and do not attempt to make a complete analysis of the situation. These small businessmen typically have certain qualities which seem to make for success in organizing companies and getting them under way. They are willing to take chances on the basis of what they see in the present, letting the future take care of itself. Because they have limited resources, they are willing to do a good bit of the work themselves rather than depending on

others. They develop personal methods of keeping track of operations and avoid formalized procedures in order to move fast from original idea to finished product.

These enterprising qualities, however, so necessary to start the small concern, are in some measure responsible for later management problems, and sometimes they prevent the company from realizing its possibilities for growth. The entrepreneur's abundant confidence that all will turn out well tends to make him neglect longer-run problems such as succession. His practice of doing most things himself conflicts with the requirement for working with and through others if the enterprise is to grow. His personal methods of keeping track of things make it more difficult for him to operate when his firm reaches a size where informal controls are decreasingly effective. His ample store of confidence in his own abilities and his lack of faith in others make him indifferent to the worth of outside counsel and assistance. The abilities to see an opportunity and get a company going are often not paired with equal abilities to run the going and growing enterprise.

Arguments Sometimes Conflict with Facts

During the course of this study many small businessmen whom we interviewed pointed out two obstacles to taking action on management development: They thought it cost so much that only large companies could afford it; they also believed that even if new men were developed, they would soon grow dissatisfied with waiting for a top job to open up and would therefore leave the company that trained them.

So far as the cost argument is concerned, we found that small concerns doing some of the most effective work in developing managers had very limited financial resources. Moreover, some of the same small businessmen who explained that they were not developing managers because they lacked opportunity at the top also said that they had been unable to expand "because we didn't have the men to handle that new operation." Conversely, in other companies where new management has been brought along, company growth has often been accelerated, resources have increased, and the con-

cern has been in a better position to meet the cost of training and to use the services of its expanded management organization.

Knowing All the Answers Isn't Enough

To be able to stay alive, the small businessman believes that he has to know the "answers." He intuitively knows what to expect from his competition and how it will react to various moves. He has some opinions about what his industry is going to do and when. He has some strong ideas about what makes his company tick and what has to be done to keep up the profits. He knows intimately the members of his organization and how they work. But despite this wealth of know-how, the small businessman finds it difficult to transfer his knowledge to others. Paradoxically, knowing all the answers does not guarantee an ability to teach.

Many small businessmen are perplexed when they discover that know-how is not easily imparted or absorbed. As one of them expressed it: "Why shouldn't a man who has worked under me for many years be able to take over this job? He has watched me work. If he is willing to listen while I tell him what should be done, why shouldn't he be able to go ahead?"

Actually, knowledge does not transfer so easily. Teaching requires a special kind of skill, one that most small businessmen are not conscious of needing. To be an effective teacher or coach, a man must be able to sense teaching and learning opportunities in the everyday flux of events. Also he must be willing to stand aside while others assume increasingly difficult responsibilities, so that they may learn by doing. The ability to do this kind of thing, and to do it with patience and understanding, is rare. Moreover, to add to the complexity, when the small businessman does attempt to educate his subordinates, he often finds that his managerial skills cannot be tied up into neat transferable packages. These are at least some of the reasons why management development is such a challenging problem, not only in small companies but in firms of every size.

Controlling Is Not Necessarily Owning

Small company managers are understandably concerned over the problem of keeping "control" of their firms. In an effort to achieve this objective, they are frequently reluctant to bring outsiders into management. Some are hesitant to release anything but the most general information about their firms and are especially secretive about financial data. It is with good reason that many small concerns are referred to as "closed corporations."

Such a negative and hostile attitude toward outside interest seems to be based on fear—the owner-manager often seems to feel that he can maintain full authority unchallenged only if no outsider has information on company affairs. Many small businessmen fear that outside interests, once given a toe hold, will attempt to seize control, probably with the aim of pursuing shortsighted or poorly conceived policies, detrimental to company well-being. Some small company managers can cite examples of this kind of thing, to prove a tangible foundation for their fears.

In some cases studied, however, where precautions against outside interference had been most rigorously applied, loss of control by the family or management group had resulted. Paradoxically, in other small firms which operated more on an "open door" policy, inviting outsiders to share in both management and ownership, the original leader had remained firmly entrenched. In such cases management went on the assumption that control is more than a product of secrecy and 100% stock ownership. They believed that in the long run a management stays in power only if it can provide a strong and effective team manned by the best executives available without limitations of family affiliation or ownership. Control, from this point of view, does not necessarily mean owning 100% of the stock or even 51%. Rather, it means maintaining a well-administered operation which commands the respect and support of all ownership groups and the public. Strange as it may seem, when management is willing to give up some elements of control, it often strengthens its position

of leadership and improves the firm's chances for profitable operation.

Paternalism and Succession

Most small businessmen are genuinely interested in the welfare and future of their employees. The close personal working relationships in the small firm enable the small businessman to know his workers and their problems. Many small businessmen have a strongly religious cast of thought, making them prone to extend the helping hand when needed. It is not uncommon to find them helping old or sick employees on the payroll, making loans and gifts to the work force, and helping them out in times of family crisis. In extreme form this is popularly called paternalism, but the small company manager would simply call it "taking care of the 'family'."

Despite his genuine interest in his employees, the small businessman in many cases endangers their future livelihood by failing to provide for management succession. If adequate leadership is not assured, the company cannot keep on meeting its payroll, nor can it contribute to long-run pension plans. As is so often true, a generous impulse is not enough. The "family" of employees can benefit only if the impulse is accompanied by some practical plan enabling the company to meet the costs involved.

Independence for Whom?

In our interviews with small company managers, we talked with a goodly number of men who had left the employ of large firms to be their "own bosses." They believed that the only place to gain real independence and a chance to try out their own ideas was in a small business. In many other cases the manager stressed the fact that small business appealed to him because he wasn't taking orders from someone else and didn't have to go along with someone else's ideas unless he wanted to.

Yet, paradoxically, many of these same men who were so concerned with independence for themselves seemed indifferent or hostile toward the idea of even partial independence

for others. They ran their companies as "one-man shows," allowing their subordinates very little scope for freedom of thought or action.

Improvements that Fail to Improve

Most businessmen with whom we talked were quick to agree that any way of improving the management of small companies would be of substantial benefit to society. But there are approaches to this problem that do not seem to work. One of these is the undiscriminating transfer of big business techniques to small company situations. A case example vivid in our minds is a small company which installed a system of formal reports and committee meetings at the suggestion of outside legal counsel. The objective of the program was to help the president keep track of his expanding operations and to tighten up what was described as a "loose" organization. It was sold to company management as a way of increasing company profits by bringing more scientific management into the picture.

The results of this program were the exact opposite of those sought, and the new systems had to be abandoned. In an effort to improve control by bringing in "big business management," the company's operations became less effective. We wish to emphasize again that any efforts designed to help small businessmen must start with a recognition of what such an operator is like, how he best runs his company, and how he works with his organization. Improvements do not follow automatically from the application of so-called modern business practice.

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Succession will always be of concern to small business managers. Some of them will not or cannot take the action necessary to insure continuity of leadership. But some small firms have taken action on this problem, and their experience supports our basic thesis: namely, that small business, through conscious efforts, can take constructive steps to make sure that successor management will be available when needed.

ABSTRACT

MANAGEMENT SUCCESSION IN SMALL AND GROWING ENTERPRISES

During the last several years the Division of Research has published several reports on the management of small, growing enterprises. These include Effect of Federal Taxes on Growing Enterprises *by J. Keith Butters and John Lintner,* Records for the Control of Growing Manufacturing Enterprises *by Paul F. Lawler, and* The Board of Directors in Small Corporations *by Myles L. Mace. This report by Professor Christensen takes up another aspect of growing enterprises, namely, the problem of providing for management succession.*

In a competitive economy the founding and growth of new enterprises is a powerful stimulant, and in the growth of young enterprises the managerial factor is of predominant influence. For the enterprise to continue to grow, furthermore, the head of the concern must also grow; and for its lasting prosperity, provision must be made, sooner or later, for succession in management.

Providing for management succession is, of course, a problem confronting companies of every size and type. Although the field research for this project was primarily concerned with small manufacturing firms, the conclusions of the study should be of value to all business administrators.

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Companies, like people, pass through various critical stages in the course of their development from infancy to maturity. One such critical stage occurs when the top executive dies or retires and a new president takes over company operations. A company's success, or lack of it, in preparing for and working through this transition period may determine its immediate survival or failure. If the company survives, its long-run competitive chances for profits and growth are profoundly affected.

Despite the importance of the problem, many small businessmen do little looking ahead, and few make preparations for this inevitable event. Successor management is therefore

often chosen under conditions that make it difficult to secure an effective replacement executive. The results of such inaction range from liquidation or a forced sale to a period of unsatisfactory operations when unseasoned management is learning to run the business or to the hurried selection of a manager who is able to keep the company afloat only under the most favorable business conditions. But more is affected than the fate of the particular company involved. From the public point of view, failure to prepare for management succession is one of the factors leading to the instability of small business, with resultant costs to investors, employees, and the community at large.

In some small companies there appears to be very little hope of interesting management in the problem of succession. Sometimes a manager refuses to consider the impact of his own removal from the scene; sometimes he is unwilling to take constructive action on the problem because this would mean some modification of his customary way of working. In other small companies, however, management has been willing to face up to the question of succession and see what could be done. In such cases the problems of management transition have been eased, and the concern has been able to negotiate the succession hurdle.

Those small businesses which have successfully provided for continuity of management have certain common attributes. One is a willingness to look ahead and make advance preparations for this period of crisis. Small businessmen who are willing to think about the problem, to discuss various alternative ways in which it can be taken care of, and to make some advance arrangements for handling it, are in a far better position to deal with succession than small firms which ignore the question.

Another characteristic of firms which have successfully dealt with succession is the presence of counsel, outside of the immediate management group, which can arouse interest in the problem and make sure that it receives continuing attention. Such outside counsel may come from a number of sources. Some small businessmen rely upon the trust officers of banks, others upon lawyers, still others on business acquaintances. In some cases there are more formalized arrangements, such as active boards of directors. It is difficult for a small businessman to be a "self-starter" with regard to succession.

Another common element found among companies which have dealt successfully with succession is a willingness on the

part of the small business manager to change in some degree his pattern of day-to-day working relationships with other members of his organization. Some of the operating patterns used by many small businessmen, while effective at producing profits, make for trouble when it comes to preparing for successor management. On the other hand, where a small businessman is willing and able to consult with one or more of his subordinates, discuss his aims, seek advice, and work through others, then his company becomes less vulnerable to his sudden withdrawal. The men left behind know enough about the business and its problems to run it, at least for a time, without his help.

A small businessman can make an important contribution to his concern's chances of insuring continuity of management if he is willing to develop a strong over-all management team. This requires time, attention, and, as noted, some change in his way of operating his concern. Where there are a number of possible candidates for the top manager's job rather than one "crown prince," a small company's chances of surviving succession are measurably increased.

Another contribution which a manager can make before turning over the reins to his successor is to limit, in so far as possible, the problems incident to a change in top leadership. Where a manager cleans up "administrative dirty work," makes certain that he leaves a "fillable job," and works with competent counsel on arrangements for succession of ownership, the transition from old to new management is less difficult.

Some small companies have taken steps to help their older management step down from office, and such steps have contributed to a successful transition of top leadership. Where some preparations for retirement are made, the difficult job of moving out the "old man" is accomplished with less strain on the part of both the individual and the company.

A significant factor affecting succession is growth. Small concerns which are growing ones get a powerful boost to their efforts to work out succession. Growth is a strong stimulant to the development of managerial skills, providing opportunities for men to try new things and to learn from increased responsibilities and challenges. Furthermore, growth can increase the size of the company's management organization, broadening the field from which the successor will be selected.

The problem of succession creates opportunities for those outside the company who are associated with or interested in the small business community. One such opportunity is de-

rived from the need for increased use of active small company boards. Small businessmen should be encouraged to develop and use boards of directors, and capable business and professional men must be encouraged to serve on them. There is also an opportunity for the financial community—specifically the professional trust officer—to increase its service to small company management. There is a natural bridge of interest for the trust officer, with his work in estate planning, between his professional duties and the need of small busin[illegible] for counsel on succession. Finally, attention to the prob[illegible] of succession also affords an opportunity to develop [illegible]etter trained management for small concerns. Small firms [illegible]nerally have lagged behind large ones in the matter of dev[illegible] ing their human resources. While elaborate training [illegible] grams would be inappropriate and even impossible in a sm[illegible] business, some advantages can be gained if the small businessman can be urged to give attention to this area.

Making arrangements for succession, like buying life insurance, is a constructive action; it is a way of meeting the obligations that the individual owes to others. Making preparations for management transition is one way in which the businessman can protect his family and heirs, and along with them, his employees, his customers, and his suppliers. From a social point of view, the business community as a whole benefits from actions taken to keep the small firm alive during and after the transition crisis. From an individual point of view, such action helps to make more certain the continuance of the business as a symbol of the businessman's achievement. The business does not disappear with his retirement but continues as evidence of his contribution to society.

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Management succession has been a perennial problem for small business. It will not disappear, but small business managers may find it easier to meet if they consciously direct their attention to it and if they consider what they can learn from the experiences of other firms which have successfully overcome the difficulties of such a transitional period. Efforts to insure continuity of management for small firms hold promise not only for the individual firm but also for greater stability in an important segment of our economy.

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